1983

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended January 31, 1984 — Commission file number 0-7423

RAPID-AMERICAN CORPORATION
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

15-0587446
(I.R.S. Employer Identification No.)

888 Seventh Avenue, New York, New York
(Address of principal executive offices)

10106
(Zip Code)

Registrant's telephone number, including area code: 212-621-4500

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
7-1/2% Sinking Fund Subordinated Debentures, due May 15, 1985	New York Stock Exchange, Inc. Pacific Stock Exchange, Inc. Cincinnati Stock Exchange, Inc.
6% Sinking Fund Subordinated Debentures, due August 15, 1988	
7% Subordinated Debentures (1969 Issue), due May 15, 1994	
7% Subordinated Debentures (1972 Issue), due May 15, 1994	
12% Sinking Fund Subordinated Debentures, due January 15, 1999	
10-3/4% Sinking Fund Subordinated Debentures, due December 1, 2003	
10-3/4% Sinking Fund Subordinated Debentures, due October 1, 2004	
11% Sinking Fund Subordinated Debentures, due October 1, 2005	
10% Sinking Fund Subordinated Debentures, due August 1, 2006	Pacific Stock Exchange, Inc. Cincinnati Stock Exchange, Inc.
15% Sinking Fund Subordinated Debentures, due November 15, 2008	
11-3/4% Sinking Fund Subordinated Debentures, due August 15, 2009	
Redeemable Debenture Purchase Warrants, expiring May 15, 1994	
14-1/2% Senior Subordinated Notes, due March 1, 1994	Pacific Stock Exchange, Inc.
Serial Zero Coupon Senior Subordinated Debentures, due March 1, 1985 through March 1, 2007	

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark whether registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes __X__ No ____

State the aggregate market value of the voting stock held by non-affiliates of the registrant.

None held by non-affiliates.

Indicate the number of shares outstanding of each of registrant's classes of common stock, as of the latest practical date.

Class	Outstanding at April 20, 1984
Common Stock, par value $.01 per share	2,435,607 shares

Documents incorporated by reference.

None

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Introductory Note

Registrant, a Delaware corporation formerly named Kenton Corporation ("Kenton"), is the successor to the former Rapid-American Corporation, a Delaware corporation ("Old Rapid"), which was merged (the "Merger") into Registrant on January 31, 1981, at which time the name of Registrant, as the surviving corporation of the Merger, was changed to "Rapid-American Corporation." As a result of the Merger, Registrant became a privately-held corporation owned 60% by Riklis Family Corporation and 40% by American Financial Corporation ("AFC"). Meshulam Riklis, Chairman of the Board, President, and Chief Executive Officer of Registrant, and two trusts for members of Mr. Riklis' family own substantially all of the equity interest in Riklis Family Corporation. All references to "Rapid" in this report include both constituent corporations to the Merger (i.e., Kenton and Old Rapid), and all references to Kenton herein are to Registrant prior to the Merger.

PART I.

Item 1. Business.

GENERAL

Rapid is engaged (a) through its subsidiary, McCrory Corporation (which, together with its subsidiaries and divisions, is sometimes referred to herein as "McCrory"), in retail merchandising, (b) through its subsidiary, Schenley Industries, Inc. (which, together with its subsidiaries, is sometimes referred to herein as "Schenley"), in the production, importation, and sale of alcoholic beverages under various brand names, and (c) through its majority-owned subsidiary, McGregor Corporation (which, together with its subsidiaries and divisions, is sometimes referred to herein as "McGregor"), in the manufacture, distribution, and sale of a variety of consumer products and the licensing of several trademarks.

Effective October 27, 1983, McGregor, which until then had been a wholly-owned subsidiary of Rapid, publicly sold 2,250,000 shares of its common stock and received approximately $37,000,000 in net proceeds. Rapid currently owns approximately 53.8% of McGregor's common stock and, accordingly, will continue to be able to elect McGregor's Board of Directors. See Note 2 to Financial Statements.

During December 1983 through March 1984, McGregor acquired approximately 61% of the common stock of Faberge, Incorporated ("Faberge") and has entered into a merger agreement to acquire the remaining shares of Faberge common stock. See Note 23 to Financial Statements.

During March 1984, a joint venture in which McCrory has a 50% interest acquired 55% of the common stock of HRT Industries, Inc. ("HRT"). See Note 23 to Financial Statements.

At January 31, 1984, Rapid and its subsidiaries employed approximately 37,000 persons.

FINANCING ARRANGEMENTS

Working capital requirements have been satisfied primarily from operations and borrowings. Reference is made to Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Notes 3, 6, and 23 to Financial Statements for a description of various financing arrangements of Rapid and its subsidiaries.

SEGMENT INFORMATION

The following table sets forth the identifiable assets of each major business segment of Rapid at January 31, 1984, 1983, and 1982:

IDENTIFIABLE ASSETS	January 31,		
	1984	1983 (In Millions)	1982
Retail Merchandising:			
McCrory Stores	$ 248.3	$ 207.2	$ 210.2
Lerner Stores	329.1	282.6	273.3
OTASCO Automotive and Home Accessories Stores	120.5	115.7	112.7
Others	6.6	6.7	7.3
Alcoholic Beverages - Schenley	527.9	728.2	714.6
McGregor and Others	116.6	81.3	98.5
Investments in Nonconsolidated Subsidiaries	28.6	32.1	28.7
Marketable Securities and Other Investments	49.9	14.1	10.9
Net Assets Held for Sale to Stockholders and Affiliates	-	19.2	18.2
Other Corporate Assets	125.1	103.4	89.7
Total	$1,552.6	$1,590.5	$1,564.1

Net sales of foreign operations (principally in Canada), export sales, and sales to any individual customer each represented less than 10% of consolidated net sales. Assets of foreign operations represent less than 10% of consolidated assets.

The contribution of each of the major business segments to consolidated net sales and operating profit during the years ended January 31, 1984, 1983, and 1982 was as follows:

Net Sales	1984		1983	1982	
	Year Ended January 31, (In Millions)				
Retail Merchandising:					
McCrory Stores	$ 818		$ 760	$ 762	
Lerner Stores	699		682	717	
OTASCO Automotive and Home Accessories Stores	303		291	291	
Others (including Britts Dept. Stores in 1982)	8		8	34	
Alcoholic Beverages - Schenley	438		599	604	
McGregor and others	179		175	211	
Operations held for sale to Stockholders and Affiliates	-		56	27	
	$2,445		$2,571	$2,646	
Operating Profit (Loss)					
Retail Merchandising:					
McCrory Stores	$ 75.5	(a)	$ 48.2	$ 50.7	
Lerner Stores	66.5		72.9	90.0	
OTASCO Automotive and Home Accessories Stores	27.5		20.9	16.5	
Others (including Britts Dept. Stores in 1982)	.5		.1	(1.6)	
Alcoholic Beverages - Schenley	46.6	(b)	69.8	40.9	(d)
McGregor and others	28.3	(c)	15.4	12.4	
Operations held for sale to Stockholders and Affiliates	-		5.6	3.8	
	244.9		232.9	212.7	
Unallocated Costs:					
Interest and debt expense	132.4		155.7	161.3	
General corporate expenses	40.7	(a)	30.1	31.0	
Other (income) earned at the corporate level	(20.9)	(e)	(12.0)	(10.6)	
Equity in (income) of nonconsolidated subsidiaries, etc.	(1.2)		(2.4)	(2.3)	
	151.0		171.4	179.4	
INCOME BEFORE PROVISION FOR INCOME TAXES AND EXTRAORDINARY CREDIT	$ 93.9		$ 61.5	$ 33.3	

(a) Additional bonuses of $6.7 million earned by the operating personnel of McCrory's division, McCrory Stores, were charged to general corporate expenses.

(b) Excludes $16.3 million of intercompany interest income, offset against interest expense of Rapid in consolidation.

(c) Includes pre-tax gain of $6.8 million from the sale of assets of the Shenandoah race track.

(d) After nonrecurring charge of $6.3 million as a result of the sale of Schenley Canada.

(e) Includes a non-taxable gain of $7.9 million attributable to the public sale by McGregor of 2,250,000 shares of its common stock.

RETAIL MERCHANDISING

At January 31, 1984, McCrory operated through its McCrory Stores division and its subsidiary, J. J. Newberry Co. (collectively "McCrory Stores") 716 variety stores under various trade names, including "McCrory", "McLellan", "H.L. Green", "J.J. Newberry", and "S.H. Kress"; through its subsidiary, Lerner Stores Corporation ("Lerner"), 796 apparel specialty stores specializing in the sale of women's and children's apparel under the trade names "Lerner Shops", "Lerner", and "Jenny Lane"; and through its subsidiary, OTASCO, Inc. ("Otasco"), a chain of 288 company-owned automotive and home accessories stores and 309 associate stores serviced by it, all operated under the trade name "OTASCO Stores" and engaged in the retail sale of automotive and home accessories. Gault Brothers, McCrory's Canadian operation, is principally a distributor of general merchandise to retail establishments.

At January 31, 1984, McCrory and its subsidiaries employed approximately 30,000 employees.

McCrory Stores

McCrory Stores sells a broad mix of merchandise, including men's, women's and children's apparel, jewelry, hardware, home furnishings, piece goods, stationery, toys, toilet articles, and candy. Restaurants or luncheonettes are operated in 381 stores. McCrory Stores also operates three free-standing restaurants. These restaurants and luncheonettes are an important part of McCrory Stores' business and over the years have been a significant contributor to operating results.

For each of the three years ended January 31, 1984, the categories set forth below accounted for approximately the following percentages of total store sales of McCrory Stores:

	Year Ended January 31,		
	1984	1983	1982
Apparel and accessories	28.9%	29.4%	28.9%
Hardware and home furnishings	15.8	14.8	14.5
Toiletries and beauty aids	9.0	8.1	7.6
Stationery	8.4	8.2	7.9
Dry goods and domestics	7.0	7.0	7.4
Restaurants and luncheonettes	6.4	7.3	7.9
Toys, games, and books	6.4	6.6	6.8
Candy	6.1	5.2	5.1
Concessions	4.3	4.7	4.8
All other merchandise	7.7	8.7	9.1

The following table sets forth, for the three years ended January 31, 1984, the number of stores opened, closed, and in operation at the end of each year and the approximate average net sales per store:

Year ended January 31,	Stores opened	Stores closed	Stores in operation at year-end	Approximate average net sales per store (1)
1982	18	42	729	$ 980,000
1983	18 (2)	29	718	983,000
1984	19 (3)	21	716	1,065,000

(1) Excluding stores opened or closed during the year.
(2) Includes 14 Sterling stores acquired by McCrory Stores on February 1, 1982.
(3) Includes 12 Rasco stores acquired by McCrory Stores on October 1, 1983.

McCrory Stores operates in 37 states and the District of Columbia, with the largest concentration of stores in Pennsylvania, Florida, California, and New York. Most of the stores are located in cities and towns having a population of less than 50,000, although the population of the geographical trading area served is generally from three to 10 times larger; 445 stores are located in downtown or urban shopping centers; 205 are located in suburban and mall shopping centers; and 66 are in rural areas.

The management of McCrory Stores has a policy of eliminating unprofitable stores based upon lease expirations, locations, and other relevant factors. It is anticipated that during the year ending January 31, 1985, 35 to 40 stores will be closed and approximately 15 stores will be opened.

The minimum sales area of any store is approximately 1,700 square feet, the maximum sales area is approximately 72,000 square feet, and the average sales area of all stores is approximately 14,000 square feet; 273 stores have sales areas of under 10,000 square feet; 385 have sales areas from 10,000 to 24,999 square feet; 40 have sales areas from 25,000 to 40,000 square feet; and 18 have sales areas in excess of 40,000 square feet. McCrory Stores is currently engaged in a major program of refurbishing many of its stores.

McCrory Stores consists of four operating regions with divisional support functions. Buying is divided into the broad categories of apparel and variety. The main distribution warehouse and buying center for such merchandise is located in York, Pennsylvania. During 1984, McCrory Stores intends to establish a major distribution center in the southeastern United States. In addition, relay stations are maintained at Albany, New York; Los Angeles, California; Stockertown, Pennsylvania; Glen Burnie, Maryland; Charlotte, North Carolina; Orlando, Florida; Columbus, Ohio; and York, Pennsylvania, to service the stores in their geographical area. A buying office for the west coast stores is located in Los Angeles, California.

McCrory Stores does not enter into long-term purchase contracts, nor does it manufacture any of the products it sells. A limited use is made of private brand names. No supplier accounts for more than 5% of McCrory Stores' purchases.

In common with many other retail businesses, McCrory Stores' business is seasonal, with sales and earnings concentrated in the fourth fiscal quarter ending on January 31.

Competition

The business of McCrory Stores is subject to active competition. The principal methods of competition are selection, price, quality, service, and, to a lesser extent, style. Identical or similar merchandise to that sold is generally available at approximately the same cost to competitors handling comparable volume. McCrory Stores generally competes with other merchandising outlets selling comparable merchandise in the same geographical area, including chain, drug, and other stores which offer a broad product mix, supermarkets, discount stores, hardware stores, and numerous other independent local stores. While management of McCrory Stores believes that its stores are generally competitive with other stores in the areas in which they operate, increased competition has been experienced in recent years, particularly from certain nationwide mass merchandising chains.

Labor Relations

At January 31, 1984, McCrory Stores had approximately 16,000 employees, some of whom were employed part-time. During certain seasons as many as 3,000 temporary employees are added and peak employment is reached during the Christmas season. There has been no major interruption or curtailment of operations due to labor controversies in over 10 years.

McCrory Stores has a noncontributory pension plan covering eligible employees.

Property

McCrory Stores' policy is to lease rather than own store premises whenever practicable. Most of the leases do not contain clauses authorizing cancellation by the lessee. At January 31, 1984, with the exception of the distribution warehouse (located in York, Pennsylvania, which comprises approximately 795,000 square feet), 41 store locations and parts of 16 others, each of which was owned, all premises were leased. A number of leases contain provisions for fixed minimum rentals with additional payments based on percentages of annual sales. Some leases require the lessee to pay property taxes or insurance, or both.

Apparel Specialty Stores (Lerner)

Lerner sells at moderate prices substantially all articles of women's and children's apparel, except shoes. For each of the three years ended January 31, 1984, the merchandise categories set forth below accounted for approximately the following percentages of total store sales of Lerner:

	Year Ended January 31,		
	1984	1983	1982
Sportswear	34.4%	33.3%	34.3%
Dresses	16.1	16.6	16.5
Coats and suits	13.2	11.2	10.7
Blouses	11.4	14.3	13.3
Underwear and hosiery	11.3	11.1	11.1
Children's wear	7.5	8.0	9.0
All other merchandise	6.1	5.5	5.1

The following table sets forth, for the three years ended January 31, 1984, the number of stores opened, closed, and in operation at the end of each year and the approximate average net sales per store:

Year ended January 31,	Stores opened	Stores closed	Stores in operation at year-end	Approximate average net sales per store*
1982	60	10	767	$ 970,000
1983	33	10	790	868,000
1984	15	9	796	876,000

* Excluding stores opened or closed during the year. The decline in the average sales per store was primarily due to the smaller size of new stores.

The stores are located in 45 states, the District of Columbia, Puerto Rico, and the Virgin Islands, with the greatest concentration of stores in California, Florida, New York, and Texas. Lerner has actively followed the larger shopping center concept of retail distribution, where most of its stores, which have been opened in the past 20 years, are located. It is anticipated that approximately 20 stores will be opened and five stores closed in the year ending January 31, 1985.

The minimum sales area of any store is approximately 1,600 square feet, the maximum sales area is approximately 24,000 square feet, and the average sales area of all stores is approximately 6,600 square feet; 434 stores have sales areas of under 6,600 square feet and 362 have sales areas in excess of 6,600 square feet. New stores have an average sales area of approximately 5,000 square feet. Lerner is currently engaged in a major program of refurbishing certain of its stores.

The home office and central buying office are located in New York City. The major distribution center is located in South Brunswick, New Jersey. Other regional distribution centers are located in Atlanta, Georgia; Jacksonville, Florida; Chicago, Illinois; Los Angeles, California; and Dallas, Texas. Buying is directed centrally, with direct shipment of most merchandise from the vendor to the distribution centers. The greatest portion of the merchandise is purchased by the New York central buying office. Merchandise is also purchased through a buying office in Los Angeles. Sales promotion and advertising, directed centrally, are modified to meet local conditions. Each distribution center services and supervises the stores in its area.

Lerner does not generally enter into long-term purchase contracts nor does it manufacture any of the products it sells. No supplier accounts for more than 5% of Lerner's purchases.

Lerner participates in bank credit card programs and also offers twelve-month revolving charge accounts, with service charges at rates prevailing locally. At January 31, 1984, credit facilities were available in substantially all of the stores. Credit sales accounted for approximately 21% of net sales for the year ended January 31, 1984.

Citicorp Retail Services, Inc., pursuant to an agreement with Lerner, purchases and services Lerner's accounts receivable.

In common with many other retail businesses, the business of Lerner is seasonal, with sales and earnings concentrated primarily in the second half of the fiscal year ending on January 31.

Competition

Lerner is subject to active competition from other apparel merchandising chains and from so-called "discount" organizations selling wearing apparel, as well as from department stores, specialty shops, mail order houses, and other retailers. The primary competitive factors are fashion, price, and product assortment. Management believes Lerner is the largest retailing chain in the United States specializing exclusively in women's and children's apparel.

Labor Relations

At January 31, 1984, Lerner had approximately 11,000 employees, some of whom were employed part-time. Temporary employees are added during certain holiday seasons and peak employment is reached during the Christmas season. There has been no major interruption or curtailment of operations due to labor controversies in over 20 years. Collective bargaining contracts are in effect in 154 stores and five distribution centers covering approximately 3,000 employees in 13 states.

Lerner has noncontributory pension plans covering eligible employees.

Property

Lerner's policy is to lease rather than own its premises whenever practicable. Most of the leases do not contain clauses authorizing cancellation by the lessee. At January 31, 1984, with the exception of four distribution centers, four store locations and parts of four others, each of which was owned, all premises were leased. Most of the store leases provide for fixed minimum rentals with additional payments based on percentages of annual sales. Some leases require the lessee to pay property taxes or insurance, or both. The home office and central buying office currently occupy approximately 100,000 square feet of office space in New York City under a lease expiring in 2004. In 1982, Lerner purchased a distribution center in South Brunswick, New Jersey, containing approximately 362,000 square feet, and in March 1984 entered into a sale and leaseback arrangement for this facility (see Item 13 - "Certain Relationships and Related Transactions", paragraph 25).

Automotive and Home Accessories Stores (OTASCO Stores)

Otasco sells automotive and home accessories in 288 company-owned stores in the southeast and southwest United States, and, in addition, supplies merchandise and merchandising aids to 309 associate stores which are owned by third parties in the same geographical areas.

Though many products are carried in open displays, self-service is not a feature of OTASCO Stores' business. The stores sell over 9,000 items of merchandise, including tires, batteries, auto accessories and parts, home appliances, sporting goods, hardware, garden supplies, tools, and housewares. For the years ended January 31, 1984, 1983, and 1982, sales of major home appliances accounted for approximately 27%, 27%, and 28%, respectively, of OTASCO Stores' total sales. Most of the company-owned stores maintain service centers for the installation of replacement auto parts they sell.

The following table sets forth, for the three years ended January 31, 1984, the number of company-owned stores opened, closed, and in operation at the end of each year and approximate average net sales per store:

Year ended January 31,	Stores opened	Stores closed	Stores in operation at year-end	Approximate average net sales per store *
1982	12	1	277	$790,000
1983	9	2	284	810,000
1984	4	-	288	870,000

* Excluding stores opened or closed during the year.

The locations of the company-owned stores are divided almost equally between downtown areas and urban and suburban shopping centers; the associate stores, with few exceptions, are located in smaller communities. Otasco is continuously engaged in modernizing its older stores. In the opening of company-owned stores, greater emphasis is being placed on strip shopping center locations.

During the year ending January 31, 1985, it is anticipated that two company-owned stores will be opened and arrangements will be entered into for the purchase of up to four associate stores.

During the year ended January 31, 1984, approximately 58% of total sales in company-owned stores were on credit, customarily secured by conditional sales contracts. In addition, all company-owned and most associate stores participate in bank credit card programs.

Otasco Credit Corporation ("Credit"), a wholly-owned subsidiary of Otasco, finances Otasco's receivables. Credit has a revolving credit agreement, expiring on July 31, 1984, with a regional group of banks in the aggregate principal amount of $75,000,000, secured by all of the customers' accounts receivable purchased by Credit together with substantially all of Otasco's customers' accounts receivable. Otasco has a $15,000,000 line of credit from the same regional group of banks. The aggregate permitted borrowings under Otasco's and Credit's agreements is $75,000,000.

Otasco does not generally enter into long-term purchase contracts, nor does it manufacture the products it sells. A limited use is made of private brand names. No supplier accounts for more than 10% of Otasco's purchases.

Rapid Muffler, Inc., a wholly-owned subsidiary of Otasco, sells and installs car exhaust systems and shock absorbers. At January 31, 1984, 11 shops were in operation (seven in Oklahoma and four in Kansas). It is anticipated that five additional shops will be opened in Oklahoma during the year ending January 31, 1985.

Competition

The business of Otasco is subject to active competition from mass merchandisers, tire company outlets, various department stores, major appliance stores, variety stores, home and auto stores, and sporting goods stores. The primary competitive factors are price, location, selection, and service. Management believes that Otasco is competitive with other stores in the geographical areas in which it operates.

Labor Relations

At January 31, 1984, Otasco had approximately 2,600 full time employees. During certain seasons temporary employees are added and peak employment is approximately 3,600 during the Christmas season. There has been no major interruption or curtailment of operations due to labor controversies in over 10 years.

Otasco has a noncontributory profit-sharing retirement plan covering eligible employees.

Property

Otasco's executive offices and warehouse, located in Tulsa, Oklahoma, occupy a 500,000 square foot facility (which has been leased through 2003) situated on a 28-acre site which provides for future expansion. This facility includes approximately 61,000 square feet of office space. Otasco's office and warehouse in Little Rock, Arkansas containing 129,400 square feet of floor space, including loading docks, are leased through 1990; its warehouse and offices in Atlanta, Georgia occupy a building, which has been leased through 1989, containing 148,000 square feet of floor space, including loading docks; and its office and warehouse in Meridian, Mississippi containing 166,400 square feet of floor space, including loading docks, are leased through December 1987. Public warehouse space is leased in major market areas for short periods as seasonal demands require.

Otasco's policy is to lease rather than own store premises. All company-owned stores, except one, are in leased locations. Most of the leases do not contain clauses authorizing cancellation by the lessee. Most of the downtown store leases are at fixed rentals, while most of the shopping center leases provide for additional rentals based on percentages of annual sales. A few leases require the tenant to pay property taxes or insurance, or both.

Canadian Operation

Gault Brothers, McCrory's Canadian operation, is principally a distributor of general merchandise to retail establishments. Gault leases, through 1995, a 96,000 square foot warehouse in Vancouver, Canada, partially used for manufacturing operations. At January 31, 1984, Gault employed approximately 100 persons.

HRT

McCrory entered into a joint venture (the "Joint Venture") with Schottenstein Stores Corporation ("Schottenstein") for the purpose of investing in HRT, which had been operating under Chapter 11 of the United States Bankruptcy Code. Each party owns a 50% interest in the Joint Venture. In March 1984, the Joint Venture acquired 55% of the shares of HRT common stock for $18,000,000 and arranged for up to $35,000,000 of credit facilities for HRT. The common stock of HRT is listed on the New York Stock Exchange.

During March 1984, McCrory acquired an option exercisable during January 1985 to purchase Schottenstein's interest in the Joint Venture for $13,225,000, against which a $1,000,000 non-refundable deposit was paid. In connection therewith, McCrory agreed to guarantee certain credit facilities of HRT and, in addition, loaned Schottenstein $9,000,000, without interest, payable during January 1985. If McCrory does not exercise the option, Schottenstein has the right to acquire McCrory's interest in the Joint Venture for $9,000,000.

HRT currently operates, in the western part of the United States, 47 Zodys self-service discount department stores which carry a wide variety of merchandise and 97 family footwear stores operated under the name Karl's or Shoe Stop. HRT is also engaged in the apparel manufacturing business through its subsidiary, Jody-Tootique, Inc., which designs and manufactures popular-priced women's dresses.

Miscellaneous

Substantially increased construction costs (including interest), zoning restrictions and ecological considerations, possible changes in shopping habits in the event of increases in energy costs or possible shortages, and certain other factors affecting the development of regional shopping centers have had, or may have, an effect on the rate of construction and expansion of large shopping centers and have resulted in significant increases in shopping center rentals. These factors may affect the nature and rate of expansion of certain McCrory operations, particularly Lerner.

ALCOHOLIC BEVERAGES

Schenley is engaged in the production, importation, and sale of alcoholic beverages, including whiskies, gins, vodkas, rums, brandies, wines, liqueurs, cordials, and specialties.

In the year ended January 31, 1984, the largest contributor to Schenley's operating income was Dewar's White Label Scotch whisky. Dewar's White Label Scotch whisky has been distributed under contracts which have been renewed from time to time since 1936, the latest of which extends to March 31, 1986.

Products

Schenley sells domestic alcoholic beverages under a number of brands owned by it, and sells imported alcoholic beverages under brands owned by it or for which it has United States, and in some cases, overseas distribution rights.

Domestic Alcoholic Beverages - Brands of domestic whiskies owned by Schenley include Ancient Age, Ancient Ancient Age (these trademarks have been licensed to a third party), J. W. Dant, I. W. Harper, and Old Charter bourbon whiskies, and George Dickel Tennessee whisky. Schenley's principal brands of blended whiskies are Schenley Reserve and J. W. Dant. Schenley owns several brands of domestic gins (including Schenley and J. W. Dant), brandies (including Coronet and J. Bavet), vodkas (including Samovar, Schenley, and J. W. Dant), DuBouchett cordials, Cocktails for Two and other domestic spirit beverages. Schenley owns the Dubonnet brand in the U.S. and owns and distributes Cruzan, Old St. Croix, and Ron Carioca rums from the Virgin Islands.

Imported Alcoholic Beverages - Brands of imported beverages owned by Schenley or its foreign affiliates include J. W. Dant and Park & Tilford Scotch whiskies; MacNaughton, Grande Canadian, and J. W. Dant Canadian whiskies; Ole tequila; Fratelli Lambrusco and Siglo wines and Cruz Garcia Real Sangria. Brands of imported alcoholic beverages for which Schenley has United States distribution rights include Dewar's White Label and Dewar's 12 Scotch whiskies, Glenordie single malt Scotch whisky, and Peter Dawson "Special" Scotch whisky; OFC Canadian whisky; Power's Gold Label Irish whisky; the Stock line of vermouth, brandy and cordials; Berentzen liqueur; Charles Heidsieck champagne; Lillet aperitif; and Joseph Drouhin, Fontanafredda, Hugel, La Cour Pavillon, Lamberti, Melini, and Delas Freres wines. The earliest expiration date of any agreement for distribution rights in the United States is March 31, 1985 and the latest expiration date is September 24, 2003.

The following table sets forth the approximate percentage of total case sales represented by the principal categories of alcoholic beverages sold by Schenley in the United States during each of the three years ended January 31, 1984. Each principal category has been profitable. However, Schenley's profits on the sale of straight whiskies and Scotch whiskies generally are higher than on the sales of its other products. Approximately 55% of Schenley's case sales in the United States are of imported products, principally Scotch and Canadian whiskies.

	Year Ended January 31,		
	1984	1983	1982
Scotch whiskies	28.0%	21.0%	20.3%
Straight whiskies*	15.8	24.3	24.7
Wines	14.8	18.9	18.1
Canadian whiskies	11.1	8.9	8.5
Gins and vodkas	9.1	8.2	9.4
Blended whiskies	3.5	3.1	3.2
Rums, brandies, cocktails, cordials, etc.	17.7	15.6	15.8

* During December 1982, Schenley sold its facilities in Frankfort, Kentucky and entered into a contract to supply the purchaser with Bourbon whiskey. In connection therewith Schenley licensed the purchaser to use the trademarks Ancient Age and Ancient Ancient Age. If all the commitments under the purchase agreement are fulfilled the ownership of the trademarks will be transferred to the purchaser.

Distribution and Marketing

In the domestic market, 18 states and Montgomery County, Maryland have established liquor distribution systems under which sales of alcoholic beverages are made directly through their liquor control boards and commissions. Schenley sells to all of these boards and commissions. In the remaining 32 open states and in the District of Columbia, Schenley sells through conventional distribution channels, principally to outside wholesalers. In the year ended January 31, 1984, no wholesale distributor accounted for more than 4.4% and no state control board accounted for more

than 3.8% of total cases sold. The greater portion of Schenley's sales are made in the open states.

Schenley advertises its products extensively, using various media, including magazines, newspapers, outdoor signs, and posters and point-of-sale promotional material, and, in addition, radio and television for wines. Advertising and promotional activities in the industry are, however, subject to regulation under Federal, state, and local laws and regulations, which vary considerably, and concern, among other things, permissible media and content. In certain media, advertising of distilled spirits is not accepted as a matter of policy. Schenley utilizes five independent advertising agencies, and also places outdoor advertising through an agency owned by it. In the years ended January 31, 1984, 1983, and 1982 Schenley spent approximately $42,000,000, $46,000,000, and $51,000,000, respectively, for advertising.

Foreign Operations

Effective as of October 1, 1981, Schenley sold its wholly-owned subsidiaries in Canada. As part of the sale, Schenley Canada, Inc. (now an unrelated party) set aside for Schenley inventories of Canadian whisky in bulk for future bottling in Canada and subsequent importation and distribution in the United States. In addition, Schenley entered into a long-term supply contract, pursuant to which Schenley Canada, Inc. will supply Canadian whisky to Schenley for sale in the United States.

Schenley owns a 49.3% interest in AGE Bodegas Unidas, S.A., a Spanish company. See "Property" below for the plants and properties owned by the Spanish affiliate.

Major trademarks of Schenley are registered in various countries. Trademark licensing agreements are in effect with customers in eight foreign countries and overseas territories who produce products under the trademarks on a royalty basis. Other trademark licensing agreements are in effect with customers in 11 foreign countries, and overseas territories and dependencies on a royalty-free basis where the bulk goods required for bottling are purchased from Schenley. The sales of Schenley to, and revenues derived from, these customers in foreign countries are not material.

Competition

The alcoholic beverage industry is highly competitive and Schenley competes with both domestic and foreign companies. In the United States market there are many competitors, a number of which market both distilled spirits and wines. Competition is principally on the basis of price and product quality, with advertising an important factor. The management of Schenley believes that its products are generally competitive with respect to these factors.

Inventories and Raw Materials

Straight whiskies, to be designated as such under applicable regulations, must be aged for at least two years in new charred white oak barrels. Schenley and other distillers age their whiskies for four years or more. As a result, inventories in the industry are larger in relation to sales and to total assets than would be normal for many other businesses. Production is scheduled to meet the anticipated demand four years or more in the future.

The principal supplies and materials used in the production of Schenley's products are grains, molasses, white oak barrels, flavoring, and bottling supplies. Schenley purchases its grains and the other materials from numerous sources. Schenley has phased-out the production of its own barrels. Since many of the raw materials used in the production of Schenley's alcoholic beverages are agricultural products, prices and costs are subject to the influences common to those products, including climate and governmental influences on production and marketing. Schenley purchases its requirements of barrels, bottles, and other packaging materials from various manufacturers and distributors.

Regulation and Taxation

The alcoholic beverage industry is subject to Federal and state legislation and to the rules and regulations of Federal agencies and various state and local agencies. Such regulations cover almost every aspect of the business, including production facilities, labels, packaging, advertising, and marketing.

Many states require advance filing or publication of prices to wholesalers, retailers or consumers, resulting in time lags of varying lengths before prices can be changed. Twenty states have adopted laws or regulations requiring distillers to affirm that prices charged in the state are no higher than corresponding prices charged in any other state. States in which alcoholic beverages are distributed through state agencies have, for many years, required suppliers to make similar warranties. Several states regulate the mark-up which may be made at the wholesale or retail level, or both. In addition, the laws of certain states permit counties and townships, by local option, to elect to prohibit or restrict the sale of alcoholic beverages in whole or in part. Production and sales also are subject to varying types of regulation, licensing, and supervision in other countries.

The products sold by Schenley are subject to Federal excise taxes on distilled spirits and wines as well as varying Federal Customs duties on imports. The rate of Federal excise tax on all distilled spirits is $10.50 a proof gallon. Legislation is pending in the United States Congress which may have the effect of significantly increasing the Federal excise tax on distilled spirits. Distilled spirits are subject to other excise taxes, the most important of which are state gallonage taxes, varying in amount from $1.75 to $6.50 a wine gallon. Imported distilled spirits and wines are also subject to Customs duties at varying rates.

The law with respect to the establishment and operation of distilled spirits plants provides for an "All-in-Bond" system. Under such system, the entire premises of a distilled spirits plant are treated as bonded premises, with certain exceptions, and the government has instituted a post-audit system for verifying proprietors' compliance with the law and regulations.

Labor Relations

At January 31, 1984, Schenley employed approximately 1,300 people in the United States and approximately 400 people in other countries.

Schenley has contracts covering wages, hours of employment, working conditions, and related matters with a number of labor unions, expiring at various dates to August 31, 1986, covering substantially all of the hourly-rated and certain of the salaried employees in the United States. In general, labor relations have been satisfactory and there have been no strikes in recent years that had a material effect on Schenley's overall business.

Schenley maintains noncontributory pension plans and other benefit plans, contributory and noncontributory, for its employees, and contributes to union pension and welfare plans.

Property

Schenley operates four plants for the production of distilled alcoholic beverages. These plants have an aggregate daily distilling capacity of approximately 95,000 proof gallons of whiskey or distilled spirits; facilities for bottling, under normal conditions, an aggregate of approximately 28,500 standard cases of product in an eight-hour day; and storage facilities for approximately 1,300,000 barrels of aged and aging distilled spirits. Schenley's partially-owned Spanish affiliate operates wineries with an aggregate daily production capacity of 23,700 cases. In addition, Schenley owns two inactive plants. During 1981, Schenley acquired two commercial buildings in New York City containing approximately 290,000 square feet, which are now partially leased to third parties.

The principal domestic whiskey plants are located at Lawrenceburg, Indiana; Louisville, Kentucky; and Tullahoma, Tennessee. Schenley has a plant for the distillation of rum in the United States Virgin Islands. During the year ended January 31, 1984, Schenley closed its Schenley, Pennsylvania facility and sold its plant at Bardstown, Kentucky, as well as its cooperage facility at Louisville, Kentucky. During the year ended January 31, 1983, Schenley sold its plant and related facilities at Frankfort, Kentucky and closed its Fresno, California facility.

Schenley owns all of its distilleries and plants. They are generally of sound construction, and, except for the inactive plants, are adequately equipped for carrying on Schenley's business and are generally in good operating condition.

Environment

Schenley's plants are subject to Federal, state, and local pollution control regulations. Management of Schenley believes it is currently in full compliance with such regulations at all its plants in the continental United States and has not received any indication to the contrary from governmental authorities. No major capital expenditures for pollution control compliance are anticipated for these plants for the forseeable future.

A wholly-owned subsidiary of Schenley, Virgin Islands Rum Industries, Ltd. ("VIRIL"), owns and operates a rum distillery in the United States Virgin Islands. The wastes from rum distillation are, and have for many years been, discharged directly into the ocean some 1,800 feet off the south shore of St. Croix. Accordingly, the disposition of these wastes is subject to regulation under the Federal Water Pollution Control Act. In 1975, VIRIL challenged the restrictive effluent limitations included in a draft discharge permit issued by the U.S. Environmental Protection Agency ("EPA"). A hearing on the matter commenced in July 1977, but has remained in recess since that time.

In September 1979, VIRIL, EPA, and the Virgin Islands Department of Conservation and Cultural Affairs (the local agency responsible for enviromental preservation) entered into a tentative agreement under which VIRIL would construct, and place in operation by early 1983, an anaerobic waste treatment facility at a projected cost of $3,500,000. The agreement also barred any attempt to impose civil or criminal penalties on VIRIL on account of its prior discharges. The Stipulation of Settlement was never executed. However, until November 1981, all three parties acted as if it had been. Prior to November 1981, VIRIL acquired land for the treatment facility, hired a consulting engineer, and solicited and received bids for construction of the facility. On July 13, 1981, VIRIL filed a Request for Reconsideration with EPA. That Request, and supplements to it, argued in essence that VIRIL ought not be required to build the treatment facility because its effluence did not harm the environment and that VIRIL's competitive and economic circumstances had changed materially since 1979.

On April 9, 1982, EPA published a notice in the Federal Register calling for public comment on the pending VIRIL Request for Reconsideration and setting May 24, 1982, as the date such comments would be due. VIRIL filed two sets of comments in response to the Agency's notice. VIRIL has also requested that EPA give it assurances that discharges during the pendency of VIRIL's Request for Reconsideration would not be considered in violation of Federal law.

The EPA still has the VIRIL Request for Reconsideration under advisement, and it is not known when EPA will make its decision or what that decision will be. VIRIL is also seeking legislative relief from the U.S. Congress but cannot predict whether it will be successful in securing such relief. The Virgin Islands authorities have not commenced any enforcement action against VIRIL nor have they indicated an intent to do so.

McGREGOR

McGregor, through its Apparel Division, manufactures (a) medium and popular priced tailored suits and sport coats sold under the "Botany '500'", "Coat Tails", "Botany", "Worsted-Tex", "Fashion Park", "Stein Bloch", "Broadstreet's", "Cartier", and "Bert Pulitzer" trademarks and under private labels; (b) men's, women's and children's athletic shirts, sport shirts and T-shirts sold under the "Anvil", "Wonderknit", "Scoreboard", "Bert Pulitzer", "Botany" and "Botany '500'" trademarks and under private labels; and (c) women's nightwear, gowns and robes sold under the "Gilead" and "Gillies" trademarks and under private labels. In addition, McGregor, through its Licensing Division, licenses others to use the "McGregor", "Botany '500'", and "Bert Pulitzer" trademarks.

During December 1983 and January 1984, McGregor acquired 461,000 shares of common stock of Faberge in open market transactions. On January 19, 1984, McGregor entered into a Merger Agreement (the "Merger Agreement") with Faberge, which provided, among other things, that McGregor make a tender offer (the "Offer") for up to 2,200,000 shares of Faberge common stock for $32 per share net to the seller in cash. Pursuant to the Offer, McGregor acquired 2,200,000 shares of Faberge common stock. In addition, during February 1984, McGregor acquired 777,800 shares of Faberge common stock in a private transaction. As a result of the foregoing, McGregor currently owns approximately 61% of the outstanding shares of Faberge common stock. The Merger Agreement provides that a wholly-owned subsidiary of McGregor will be merged into Faberge which will then become a wholly-owned subsidiary of McGregor and that each share of Faberge common stock (other than those owned by McGregor and those as to which appraisal is duly sought) will be converted into the right to receive $32 principal amount of subordinated notes of McGregor due 1994 (the "Notes"). It is anticipated that the merger will be consummated during June 1984. Upon consummation of the merger the total consideration which will have been paid by McGregor for the acquisition of Faberge (including expenses) will be approximately $180,000,000 (including the principal amount of the Notes, bank borrowings of approximately $100,000,000 and working capital). See Notes 3 and 23 to Financial Statements.

Faberge is an international consumer products company principally engaged in development, manufacture, and worldwide distribution of popular and prestige fragrances, toiletries, haircare products, and accessories. Faberge's common stock is listed on the New York Stock Exchange.

Sales and Distribution

McGregor sells directly to retail outlets throughout the United States through its own sales force. The men's clothing line is advertised on television and radio and in newspapers, national magazines, and trade publications.

McGregor licenses the trademarks "McGregor", "Botany '500'", and "Bert Pulitzer", for use on men's, women's and children's apparel products which are sold both in the United States and abroad. The Licensing Division provides a number of services to the licensees, including overall design coordination for

the full line of "McGregor" and "Botany '500'" products, advising the licensees concerning the selection of colors, styling and fabrics, arranging the preparation of coordinated advertising and promotional materials, making periodic visits to each licensee to provide assistance in marketing, and arranging for annual conventions of domestic and international licensees. McGregor believes that the "McGregor" trademark has achieved wide recognition throughout the United States, Europe, South America, and Japan. "Botany '500'" was first used on men's clothing in 1943 and has been continuously utilized on men's tailored suits and sport coats manufactured in the United States since that date.

Raw Materials

Certain operations of McGregor use both knit and woven cloth in the manufacture of apparel. The shirt line has knitting mills where most of the various types of knitted cloth required in manufacturing operations are fabricated in their entirety from yarn to finished product. Other McGregor operations purchase their finished cloth requirements primarily from domestic suppliers.

McGregor purchases the major portion of its menswear clothing fabric from domestic suppliers. No supplier accounts for more than 5% of material purchased by McGregor.

Labor Relations

At January 31, 1984, McGregor employed approximately 5,200 persons. Approximately 50% of the production employees, together with certain other employees, are covered by collective bargaining agreements and several units maintain pension, profit-sharing and other benefit plans for their employees, and contribute to union pension and welfare plans. Labor relations have been harmonious and there have been no major work stoppages in recent years.

Competition

McGregor faces active competition with respect to all the apparel which it manufactures and sells. The principal methods of competition include price, product quality, ability to meet shipment schedules, selling and servicing the trade, direct and indirect advertising to the consumer, and the utilization of special promotional programs to deal with particular requirements, opportunities or market segments. The management of McGregor believes it is generally competitive with respect to these factors.

Management believes, on the basis of available information, McGregor is one of the largest manufacturers of men's tailored clothing not directly affiliated with any men's clothing retailer.

Property

McGregor operates 17 manufacturing facilities in the United States of which eight, containing approximately 935,000 square feet of space, are owned (five by McGregor and three by Rapid), and nine, containing approximately 900,000 square feet of space, are leased. McGregor also operates a number of sales offices. Management believes that McGregor's manufacturing facilities and equipment are capable of meeting operating requirements in peak periods.

OPERATIONS SOLD TO STOCKHOLDERS AND AFFILIATES

The net assets of Melville Knitwear Co., Inc. ("Melville"), American Recreation Group, Inc. ("ARG"), and Plastic Toy and Novelty Company ("Plastic Toy"), were sold to stockholders and affiliates of Rapid during the year ended January 31, 1984. See Note 9 to Financial Statements and Item 13 - "Certain Relationships and Related Transactions", paragraph 3.

Item 2. Properties.

Rapid leases approximately 300,000 square feet of office space at 888 Seventh Avenue, New York, New York (under a lease expiring in 1995), of which Rapid and certain of its subsidiaries occupy approximately 130,000 square feet for executive and administrative offices and the balance is subleased. Rapid leases approximately 100,000 square feet of office space at 645 Fifth Avenue, New York, New York (under a lease expiring in the year 2000), which is subleased. McCrory leases approximately 139,000 square feet of space at 360 Park Avenue South, New York, New York, pursuant to a lease expiring in 1990. McCrory has subleased this space through June 1985 (renewable through 1990).

In September 1981, Rapid purchased the former S. Klein property on 14th Street, New York, New York for approximately $14,000,000 in cash and notes, payable over four years. Simultaneously with such purchase, McCrory's lease for such property was cancelled. Rapid has granted an option to purchase this property, which if exercised would result in proceeds approximating Rapid's carrying value. See Item 13 - "Certain Relationships and Related Transactions", paragraph 33.

Reference is made to Item 1 - "Business" for information concerning other physical properties of Rapid and its subsidiaries.

Item 3. Legal Proceedings.

Various legal proceedings are pending relating to transactions in which Rapid or its subsidiaries have been involved. These lawsuits have been brought against various defendants, including Rapid, its subsidiaries and predecessors, and certain of their officers and directors. All references herein to Rapid include Old Rapid and Kenton, unless the context otherwise requires, and all references herein to Kenton are to such corporation as it existed prior to the Merger (see "Introductory Note").

On August 16, 1979, Rapid, McCrory, and Meshulam Riklis, the Chairman of the Board, Chief Executive Officer, and President of Rapid and the then Vice Chairman of the Board of McCrory, consented to the entry of judgments against them, without admitting or denying the allegations of a complaint filed against them on that day by the Securities and Exchange Commission (the "Commission") in the United States District Court for the District of Columbia.

The complaint in the action contained allegations concerning a pattern of transactions whereby Rapid and McCrory paid fees and entered into agreements with personal creditors of and persons who entered into business relationships with Mr. Riklis. It was alleged that the transactions in question were either negotiated or approved by Mr. Riklis at a time when he was the Chairman of the Board, Chief Executive Officer, and President of Rapid and Vice Chairman of the Board of McCrory. The complaint alleged that in certain of the transactions, Rapid or McCrory, at the direction of Mr. Riklis, paid finder's fees or entered into consulting agreements with personal creditors of Mr. Riklis, and that neither the substance of the transactions nor Mr. Riklis' conflict of interest in causing the transactions to be consummated was disclosed to the Board of Directors of Rapid or McCrory. In another transaction it was alleged that Mr. Riklis caused McCrory to amend an employment agreement with a senior executive of McCrory in order to allow the senior executive immediately to receive accrued compensation, to which he was not then entitled, which money was then immediately loaned to Mr. Riklis, and that the Board of Directors of McCrory, which later approved the amendment, was not informed that the proceeds resulting from the amendment were used to make a loan to Mr. Riklis. In other transactions it was alleged that Mr. Riklis negotiated, directly or indirectly, or approved employment agreements on behalf of Rapid and McCrory with senior executives of those companies who were or became his personal creditors or who had entered into personal business relationships with him, and that Mr. Riklis did not disclose to the Boards of Directors of Rapid and McCrory his debtor-creditor or other personal business relationships with the executives in question and his resulting conflict of interest. Kenton was also a party to the proceedings, and the allegations concerning Kenton related to the purchase by Kenton of approximately 1,100,000 shares of Rapid common stock from Mr. Riklis in order, among other reasons, allegedly to allow Mr. Riklis to amortize his personal loans while at the same time retaining his control of Rapid through his substantial influence over the business and affairs of Kenton. In addition, it was alleged that Mr. Riklis caused Kenton, as he did Rapid and McCrory, to enter into transactions with persons who were or became, soon after the transactions were consummated, his personal creditors.

At the time of the filing of the complaint and the related judgments, Rapid, McCrory and Mr. Riklis filed undertakings with the Court requiring them to carry out certain obligations, including the creation of a Transaction Review Committee of the Board of Directors of Rapid. Pursuant to Rapid's undertaking, disclosure to the new Transaction Review Committee of the Board of Directors of Rapid would be required of personal transactions between officers or directors of Rapid or any of its subsidiaries and third parties prior to Rapid's or any of its subsidiaries' entering into transactions with such parties. In addition, approval by the Transaction Review Committee would

be required prior to the consummation of any transaction between such third parties and Rapid or its subsidiaries. In accordance with Rapid's undertaking, effective on August 16, 1979, Rapid's Board of Directors was expanded from 12 to 16 members and the four new members of the Board of Directors were elected to the Transaction Review Committee. Prior to their election as directors, none of the new directors had any business relationship with Rapid or with any existing director or officer of Rapid. The qualifications of the new directors were submitted to the staff of the Commission.

Action by Unishops

In February 1974, an action was instituted in the Supreme Court of the State of New York, County of New York, by Unishops, Inc., and several of its wholly-owned subsidiaries, against J. J. Newberry, McCrory, Rapid, and former McCrory and J. J. Newberry executives. The complaint alleged, in essence, that to permit J. J. Newberry to sell three stores, plaintiffs cancelled license agreements, pursuant to which they operated men's and boys' wear departments in those stores, in reliance upon J. J. Newberry's agreement that those agreements would be replaced by new license agreements for four new locations. Plaintiffs charged that the amount of business done at two of the new locations had been materially less than represented by J. J. Newberry and that defendants had refused to enter into the other two promised agreements. McCrory and Rapid were alleged to be liable to plaintiffs by virtue of their ownership and control of J. J. Newberry and because they allegedly cooperated in J. J. Newberry's acts. Plaintiffs sought aggregate damages of $7,500,000 plus costs. In January 1984, the action was settled and discontinued upon payment to plaintiffs of $150,000.

Asbestosis Litigation

Rapid and Glen Alden Corporation ("Glen Alden"), a predecessor of Rapid, together with other corporations which are allegedly miners, manufacturers and distributors of asbestos or products containing asbestos, are defendants in a number of actions filed in several states alleging injuries to the health, or wrongful death, of persons exposed to asbestos or products containing asbestos. There are currently pending approximately 210 actions against Rapid or Glen Alden in which an aggregate of approximately 240 persons are seeking compensatory and punitive damages. It is likely that additional actions will be commenced in the future.

Neither Rapid nor Glen Alden is or ever was directly involved in the mining, manufacture or distribution of asbestos or products containing asbestos. In 1966, Glen Alden acquired 28% of the outstanding shares of The Philip Carey Manufacturing Company, an Ohio corporation ("Old Carey"). Since its incorporation in 1888, Old Carey had been engaged in, among other things, the manufacture of products containing asbestos fibers and since 1915, through a Canadian subsidiary, it owned and operated asbestos mines and mills. On June 1, 1967, Old Carey was merged into Glen Alden and the assets, properties and businesses of Old Carey were contemporaneously transferred to a newly-formed corporation called The Philip Carey Manufacturing Company, an

Ohio corporation ("New Carey"), which was then a wholly-owned subsidiary of Glen Alden. As part of such transaction, New Carey contractually assumed and indemnifed Glen Alden (the "Indemnification Agreement") against all of the liabilities of Old Carey to which Glen Alden might become subject as a result of the aforesaid merger. From and after June 1, 1967, the asbestos business formerly conducted by Old Carey was carried on by New Carey. In April 1970, New Carey merged with Briggs Manufacturing Company, in which Glen Alden then had a 48% interest, to form Panacon Corporation ("Panacon"). On April 17, 1972, Glen Alden sold all of its shares of Panacon, representing approximately 89% of the outstanding shares thereof, to The Celotex Corporation ("Celotex"), a wholly-owned subsidiary of Jim Walter Corporation. Thereafter, Panacon was merged into Celotex. In all of the asbestos actions in which Rapid or Glen Alden is a party, each has asserted or will assert claims for indemnification against Celotex as the successor in interest to New Carey and Panacon under the Indemnification Agreement. To date, in certain of the actions in which such claims have been made, Celotex has denied Rapid's and Glen Alden's claims and has asserted affirmative defenses with respect thereto and in the remainder of such actions, Celotex has been deemed to have denied such claims. Although in certain of the actions, Celotex has admitted that it is the successor in interest of Old Carey and New Carey, Celotex has asserted cross-claims against Rapid or Glen Alden in certain of the actions for indemnification or contribution as to judgments for compensatory or punitive damages which may be rendered against Celotex. Rapid and Glen Alden have denied the claims asserted by Celotex. Should any of the actions in which Rapid is a party result in judgments against Rapid, Rapid believes that it would be entitled to and would seek indemnification from Celotex under the Indemnification Agreement. Rapid has no knowledge regarding the financial condition of Celotex. To the extent that any judgments which might be entered against Rapid are not satisfied by Celotex under the provisions of the Indemnification Agreement, Rapid would seek indemnification from its insurance carriers and those which had insured Old Carey and New Carey.

To date none of the asbestos cases in which Rapid or Glen Alden is a defendant has been tried, and except for the settlement of two actions in which an insurance carrier has paid an aggregate of $15,000, neither Rapid nor Glen Alden nor any insurance carrier on behalf of either has been required to pay any sums in connection with any of the asbestos actions which have been settled. In June and July 1981, a jury rendered verdicts for $91,000 in compensatory damages and $95,000 in punitive damages against Celotex in 14 asbestos actions which had been consolidated for trial. Celotex has appealed from the verdicts. Rapid or Glen Alden had originally been defendants in each of the actions, but had been dismissed by stipulation among all parties. In agreeing to permit Rapid or Glen Alden to be dismissed from the actions, Celotex reserved the right to seek indemnification or contribution from Rapid or Glen Alden in the event a judgment for punitive damages in the actions was entered against Celotex.

Since 1966, when Glen Alden first acquired its interest in Old Carey, primary liability coverage for bodily injury has been maintained by Rapid or Glen Alden having aggregate annual maximum policy limits in the sum of $3,000,000. In addition to primary insurance, Rapid and Glen Alden have maintained excess liability insurance coverage for such years substantially over the amount of the primary insurance coverage.

While the aggregate amount of damages sought to be recovered by plaintiffs in the actions in which Rapid or Glen Alden is a defendant is substantial, the actual amounts of various settlements of actions in which Rapid or Glen Alden was not required to contribute to a settlement fund have been significantly less than the amounts demanded in plaintiffs' complaints, and payment of the amounts of the settlements has been divided among various of the settling defendants or their insurance carriers.

Litigation Related to Employment Matters

In September 1979, an action was instituted in the United States District Court for the Northern District of Illinois, Eastern Division, by Alvin Hayes and others against Schenley Affiliated Brands Corp., a subsidiary of Schenley, and others. Each of the plaintiffs alleged that he was then or previously employed by the defendants. The complaint alleged, in essence, that the defendants violated certain provisions of the Civil Rights Act of 1964 by discriminating against plaintiffs in job classifications and job assignments because of their race. In addition, the complaint alleged that the defendants maintained policies and practices with respect to, among other things, wages, fringe benefits and other terms and conditions of employment, which operated to deny equal opportunities to plaintiffs because of their race. The complaint sought a declaratory judgment that defendants' acts set forth in the complaint violated plaintiffs' rights under the Civil Rights Act of 1964 and a permanent injunction enjoining the defendants from engaging in any employment policy or practice which discriminates against plaintiffs on the basis of race. The complaint further sought appropriate back pay and reimbursement for lost wages, social security, experience, training opportunities and other benefits, and other affirmative relief, including an affirmative action program designed to eliminate the effects of the discriminatory practices set forth in the complaint. In addition, the complaint sought compensatory damages of $25,000,000 and punitive damages of $25,000,000, and costs and disbursements in connection with the action, including counsel fees. In September 1983, the action was settled and discontinued upon payment to plaintiffs of $180,000.

Litigation Relating to Dialysis Facility

In March 1980, an action was commenced against Rapid by Century City Hospital seeking general damages in the sum of $8,400,000 and punitive damages in the sum of $25,200,000, plus costs, for breach of contract and tortious breach of contract. The complaint alleges, among other things, that as a result of the treatment of certain persons at the facility in September 1978, Rapid breached its lease agreement with Century City Hospital by failing to render and deliver dialysis treatments at the facility in accordance with professional standards and regulations adopted by the State of California Department of Health Services. The complaint further alleges that as a result of defendants' breaches and of their subsequent failure to notify plaintiff of the nature of their breaches, plaintiff was damaged in that the sale price of Century City Hospital was depressed and revenues from hospital services were diminished. The punitive damage claim has been dismissed by the court. On March 12, 1982, Century City Hospital filed a voluntary petition in bankruptcy in the United States Bankruptcy Court for the Central District of California. Such proceeding is currently pending.

Litigation Regarding the Acquisition of Faberge

On or about February 9, 1984, Gibbons, Green, Van Amerongen ("Gibbons Green") commenced an action in the Supreme Court of the State of New York, County of New York against Faberge, McGregor, Meshulam Riklis, McGregor's directors, and Faberge's directors who were in office on January 19, 1984. The complaint alleges that as a result of the Faberge Board of Directors' approval of the Merger Agreement, Faberge became obligated under its agreement with Gibbons Green (the "Gibbons Green Agreement"), which provided for a proposed leveraged buy-out of Faberge, to pay Gibbons Green $4,000,000, which obligation Faberge breached, and that Faberge also breached its obligation to honor the option to purchase 500,000 shares of Faberge common stock that had been granted to Gibbons Green by Faberge. The complaint further alleges that McGregor, Meshulam Riklis, and McGregor's directors intentionally caused Faberge to breach its contractual commitments to Gibbons Green. Gibbons Green seeks to obtain payment from Faberge of $4,000,000 under the Gibbons Green Agreement and $1,000,000 in damages for the alleged breach of its option; to recover damages in the amount of $5,000,000, plus attorneys' fees and expenses from McGregor, McGregor's directors, and Meshulam Riklis; and, in the event that Faberge is excused from performance under the Gibbons Green Agreement, to recover damages in the amount of $5,000,000 plus attorneys' fees and expenses from the directors of Faberge.

Litigation Regarding the Licensing by McGregor of Certain Trademarks

On February 6, 1984, an action was commenced in the United States District Court for the Southern District of New York by Masters Industries, Corp. a McGregor licensee, against McGregor, Rapid, McCrory, and a McGregor licensee. The complaint, as amended, in this action alleges, among other things, that the defendants and various unnamed licensees of McGregor and retail customers of licensees of McGregor and McGregor conspired, in violation of Federal and state antitrust laws, to fix and maintain prices at which, and the customers to which, the plaintiff and McGregor's other licensees sell wearing apparel bearing the "Botany" and "Botany '500'" trademarks, and to boycott the plaintiff in an effort to force the plaintiff not to sell "Botany" trademarked products to retailers which compete on the basis of price with other retail customers of McGregor's licensees. The complaint, as amended, also alleges that the defendants interferred with business and contractual relationships of the plaintiff and a breach of plaintiff's licensing agreement with McGregor. The plaintiff in this action alleges that it has been damaged in an unspecified amount in excess of $5,000,000 and seeks to enjoin the defendants from engaging in alleged anti-competitive activity and to recover compensatory, exemplary and punitive damages, treble damages on its antitrust claims, and attorneys' fees and expenses. On April 24, 1984, an oral agreement was reached to settle this action without any liability on the part of the defendants. It is anticipated that this action will be terminated with prejudice on or about May 4, 1984.

Additional Litigation, etc.

There are currently pending a number of actions allegedly brought derivatively on behalf of Rapid or McCrory and which seek recoveries against certain officers and directors of Rapid for the benefit of Rapid or McCrory based upon allegations of fraud or other wrongdoing by those officers and/or directors. Such actions were described in the Proxy Statement issued in connection with the Merger (see "Introductory Note"). Since the Merger, each of such actions has been inactive. Rapid will attempt tc obtain the dismissal of all such actions on the grounds that (i) following the Merger, plaintiffs in those actions are no longer stockholders, directly or indirectly, of the company on behalf of which those actions are brought and therefore lack standing to pursue derivative suits on behalf of such company, (ii) the existence of such actions was taken into account in determining the fair consideration to be given to the public stockholders of Rapid in connection with the Merger, and (iii) all stockholders of Rapid after the Merger have waived for themselves and Rapid any recovery that might have been obtainable in those actions.

Various other legal proceedings including governmental proceedings and investigations by Federal and state regulatory agencies having jurisdiction over aspects of the business and affairs of Rapid and its subsidiaries are pending against or otherwise relate to Rapid and its subsidiaries, involving miscellaneous causes of action arising from their businesses, including, but not limited to, income tax matters, treble damage actions under the antitrust laws, commercial cases arising out of agreements or alleged agreements, personal injury and property damage matters, labor disputes, and other actions. A proceeding is pending before the Environmental Protection Agency involving Schenley (see Item 1 - "Business-Alcoholic Beverages-Environment"). Management does not consider any of these proceedings or investigations to be material.

Item 4. Submission of Matters to a Vote of Security Holders.

None

PART II.

Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters.

As a result of the Merger (see "Introductory Note"), Rapid Common Stock is not publicly owned. The number of holders of record on April 20, 1984 of each class of equity securities of Rapid is set forth in the following table:

Title of Class	Number of Holders of Record
Common Stock	2

During the two years ended January 31, 1984, cash dividends of $1.60 and $.75 per share, respectively, were declared on Rapid Common Stock.

The indenture for Rapid's 10% Sinking Fund Subordinated Debentures, due 2006 (the "10% Debentures"), provides that Rapid will not (i) declare or pay any dividend or make any distribution on its capital stock or to its stockholders (other than dividends or distributions payable in its capital stock) or (ii) purchase, redeem or otherwise acquire or retire for value any of its capital stock or permit any subsidiary to do so, if at the time of such action an Event of Default (as defined) shall have occurred and be continuing or if upon giving effect thereto the aggregate amount expended for all such purposes subsequent to January 31, 1981 shall exceed the sum of (a) 85% of the aggregate of the (i) consolidated net income of Old Rapid (see "Introductory Note") for its fiscal year ended January 31, 1981, less any dividends paid by Old Rapid on shares of its capital stock during such fiscal year and (ii) consolidated net income of Rapid subsequent to January 31, 1981, (b) the aggregate net proceeds received by Rapid from the issue or sale after January 31, 1981 of capital stock of Rapid, and (c) the aggregate net proceeds received by Rapid from the issue or sale of any indebtedness of Rapid converted after January 31, 1981 into capital stock of Rapid; provided, however, that such provisions will not prevent the payment of any dividend within 60 days after the date of declaration if the payment complied with the foregoing provisions on the date of declaration, or the retirement of any shares of Rapid's capital stock by exchange for, or out of the proceeds of the substantially concurrent sale of, other shares of its capital stock.

For the purposes of the 10% Debentures, consolidated net income is defined as the reported consolidated net income of Old Rapid and its consolidated subsidiaries for its fiscal year ended January 31, 1981 and the reported consolidated net income of Rapid and its consolidated subsidiaries for subsequent periods determined in accordance with generally accepted accounting principles, excluding (i) the portion thereof allocable to minority interests in any such consolidated subsidiaries, (ii) net income of any corporation (other than a consolidated subsidiary) combined with Rapid or any consolidated subsidiary on a "pooling of interests" basis earned prior to the date of combination, and (iii) all charges incurred and credits realized which are unusual in nature and infrequently occurring. At January 31, 1984, the amount available under the above provisions was approximately $85,000,000.

The indentures for Rapid's 14-1/2% Senior Subordinated Notes, due 1994 ("14-1/2% Notes") and Serial Zero Coupon Senior Subordinated Debentures, due 1985 through 2007 ("Zero Debentures"), each provides that subsequent to January 31, 1984, Rapid will not (i) declare or pay any dividend or make any distribution on its capital stock or to its stockholders (other than dividends or distributions payable in its capital stock), (ii) make or permit to remain outstanding any loans to affiliates (as defined) or executive officers of Rapid or any subsidiary (as defined), or (iii) purchase, redeem or otherwise acquire or retire for value any of its capital stock or permit any subsidiary to do so, if at the time of such action an Event of Default (as defined) shall have occurred and be continuing or if upon giving effect thereto the aggregate amount expended for all such purposes shall exceed the sum of (a) $100,000,000, (b) 50% of consolidated net income (as defined below) of Rapid, subsequent to January 31, 1984 and 66-2/3% of consolidated net income of Rapid subsequent to the date that all guarantees (as defined) have been extinguished (the indentures provide that on or before January 31, 1990, all guarantees of affiliates in existence on January 31, 1984 will be extinguished and, in

addition, that Rapid will not enter into any additional guarantees for the benefit of affiliates), (c) the aggregate net proceeds received by Rapid from the issue or sale after January 31, 1984 of capital stock of Rapid (other than mandatory redeemable preferred stock), and (d) the carrying value of any indebtedness (including mandatory redeemable preferred stock) of Rapid converted after January 31, 1984 into capital stock of Rapid; provided, however, that such provisions will not prevent the payment of any dividend, or the making of any loan or the purchase, redemption, or other acquisition of capital stock within 60 days after the date of declaration of such dividend or commitment to make such loan, purchase, redemption or other acquisition, if the payment complied with the foregoing provisions on the date of declaration or commitment, or the retirement of any shares of Rapid's capital stock by exchange for, or out of the proceeds of the substantially concurrent sale of, other shares of Rapid's capital stock. The initial determination date for compliance with the foregoing is January 31, 1985. In addition, the indenture for the 14-1/2% Notes provides that, under certain circumstances, a portion of the proceeds in excess of $150,000,000 from the sale of assets not in the ordinary course of business by Rapid and its subsidiaries will be used to retire certain indebtedness, which may include the 14-1/2% Notes and Zero Debentures.

For the purposes of the 14-1/2% Notes and Zero Debentures, consolidated net income is defined as the reported consolidated net income of Rapid and its consolidated subsidiaries determined in accordance with generally accepted accounting principles, excluding (i) the portion thereof allocable to minority interests in any such consolidated subsidiaries, (ii) net income of any corporation (other than a consolidated subsidiary) combined with Rapid or any consolidated subsidiary on a "pooling of interests" basis earned prior to the date of combination, and (iii) all charges incurred and credits realized which are unusual in nature and infrequently occurring.

See Notes 6 and 23 to Financial Statements for a description of certain restrictions regarding McCrory's, Schenley's and McGregor's ability to pay dividends and make advances.

Item 6. Selected Financial Data.

	Year Ended January 31,				
	1984	1983	1982	1981	1980
	(Dollars in millions, except ratios and percentages)				
Net sales	$2,444.7	$2,570.7	$2,645.9	$2,588.7	$2,603.9
Income before extraordinary credit	53.5	32.7	7.0	27.6	34.6
Total assets	1,552.6	1,590.5	1,564.1	1,561.7	1,587.7
Long-term debt	720.8	779.4	881.0	855.2	782.7
Noncurrent capital lease obligations ...	45.3	51.6	65.3	75.7	85.4
$3.00 preference stock.	-	-	-	-	53.5
Other:					
Return on sales	2.2%	1.3%	.3%	1.1%	1.3%
Working capital at year-end	301.8	336.3	457.5	467.8	593.0
Current ratio	1.7	1.6	2.1	2.1	2.8
Ratio of earnings to fixed charges and preferred dividends combined	1.55	1.30	1.15	1.20	1.37
Number of employees at year-end	37,000	40,000	45,000	46,000	48,000

Supplemental Information on Changing Prices Required by the FASB

The United States in recent years has experienced a high rate of inflation. Inflation tends to distort the traditional measurement of income and capital. The Financial Accounting Standards Board (FASB) recognized this problem and issued Statement No. 33 - Financial Reporting and Changing Prices. This statement requires companies to demonstrate the effects of inflation and changing prices on their operations by supplementing their historical financial statements with data that demonstrate the effects of inflation.

Historical data are adjusted for general inflation by using the Consumer Price Index for All Urban Consumers as a broad-based measure of general inflation. The financial data for any comparison of a series of years that results from this method are expressed in terms of constant dollars of purchasing power.

Current cost data are determined based upon year-end prices for inventory and property of the type and age used in the company's businesses. Data for inventory and cost of goods sold are generally based upon current invoices, price lists and quotations from suppliers. Data for fixed assets are generally based upon indices which approximate the current cost of acquiring used equipment and facilities.

Rapid uses the LIFO inventory method in valuing substantially all of its inventories. Accordingly, since the LIFO method matches current costs

with current revenues, Rapid has already made some allowance for the effects of general inflation and changing prices in the historical financial statements.

The following data were prepared in accordance with the FASB Statement to demonstrate the effects of inflation and changing prices.

Income before extraordinary credit adjusted for general inflation and changing prices

	Year Ended January 31, 1984		
	As reported	Adjusted for general inflation (constant dollars) (In Millions)	Adjusted for specific price changes (current costs)
Net sales and other revenues	$2,492	$2,492	$2,492
Cost of goods sold	1,679	1,701	1,708
Selling, general and administrative expenses	548	548	548
Interest and debt expense	132	132	132
Depreciation and amortization	38	67	88
Minority interest	1	1	1
Provision for income taxes *	41	41	41
	2,439	2,490	2,518
Income (loss) before extraordinary credit	$ 53	$ 2	$ (26)
Gain from decline in purchasing power of net amounts owed		$ 39	$ 39
Decrease in current cost of inventory, property, plant and equipment held during the year (based on specific price changes)			$ 80
Effect of increase in general price level			51
Decrease in current cost of inventory, property, plant and equipment held during the year (based on specific price changes) net of changes in the general price level			$ 29

* In accordance with FASB Statement No. 33 the provision for income taxes is not adjusted for the effects of general inflation.

At January 31, 1984 and 1983, the current cost of inventory was approximately $658,000,000 and $590,000,000, respectively, and property, plant and equipment (net of accumulated depreciation and amortization) was approximately $775,000,000 and $773,000,000, respectively.

Five year comparison of selected supplementary financial data adjusted for general inflation and changing prices in average fiscal 1983 dollars

	Year Ended January 31,				
	1984	1983	1982	1981	1980
			(In Millions)		
Net sales:					
As reported	$2,445	$2,571	$2,646	$2,589	$2,604
Adjusted for general inflation	$2,445	$2,653	$2,888	$3,111	$3,546
Reported information adjusted for general inflation					
Income (loss) before extraordinary credit	$ 2	$ (24)	$ (59)	$ (38)	$ 11
Gain from decline in purchasing power of net amounts owed	$ 39	$ 40	$ 98	$ 144	$ 178
Net assets at year-end	$ 501	$ 486	$ 574	$ 584	$ 708
Current cost information					
Loss before extraordinary credit	$ (26)	$ (47)	$ (59)	$ (49)	$ (28)
Net assets at year-end	$ 659	$ 635	$ 695	$ 755	$ 758
Other information					
Average consumer price index.	299.3	290.0	274.2	249.1	219.8

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Results of Operations

Net sales decreased by $125,946,000 (approximately 5%) during fiscal 1983, principally due to the decline in Schenley's sales (as a result of the sale, in December 1982, of its Ancient Age operations) and the operations sold to stockholders and affiliates; offset, in part by the increased sales of the retail merchandising group and McGregor, primarily resulting from improved

economic conditions. Other revenues in 1983 decreased by $5,177,000 due to decreased interest income; offset, in part, by the gain from the sale of the assets of the Shenandoah race track. The aggregate cost of goods sold and selling, general, and administrative expenses decreased by approximately 6%, in proportion with the decrease in sales. Interest expense declined $23,225,000 due to reduced debt levels and lower prime rates. The effective income tax rate decreased from 46.9% to 42.5% principally due to the non-taxable gain on the public sale by McGregor of its common stock. The increase in income before extraordinary credit was principally due to the improved earnings of McCrory Stores and McGregor, the non-taxable gain on the public sale by McGregor of its common stock, the gain from the sale of the assets of the Shenandoah race track, and reduced interest expense.

Net sales decreased by $75,235,000 (approximately 3%) during fiscal 1982, principally due to the decline in border store retail sales as a result of the Mexican peso devaluations and from the completion of the phase-out of Britts Department Stores. Other revenues in 1982 increased by $14,978,000 primarily due to increased interest income earned by Schenley. The aggregate cost of goods sold and selling, general, and administrative expenses also decreased by approximately 3%, in proportion with the decrease in sales. Interest expense declined $5,599,000 primarily as a result of lower prime interest rates in effect during the year, offset in part by increased borrowings. The effective income tax rate decreased from 79.1% to 46.9% principally due to the prior year's tax provision related to the disposition of Schenley's Canadian operations. The increase in income before extraordinary credit was principally due to the prior year's nonrecurring loss on the disposition of Schenley's Canadian operations, a reduction in the effect of the LIFO inventory method on cost of goods sold due to the moderation of inflation, additional interest income, and reduced interest expense.

Liquidity and Capital Resources

Rapid and its subsidiaries, during the three years ended January 31, 1984, have funded debt repayments, capital additions, dividends and amounts due from stockholders and affiliates, principally through earnings from operations, depreciation and amortization of property and debt discount, deferred income taxes and sales of assets. Seasonal working capital requirements have generally been provided by borrowings under bank credit agreements and the sale of commercial paper.

Rapid anticipates that repayments of long-term debt and expenditures for capital additions will be provided from general corporate funds or other sources, which may include proceeds from borrowings, sales of assets or refinancings. In March 1984, Rapid received proceeds of approximately $333,000,000 from the public sale of $200,000,000 principal amount of 14-1/2% Notes and $506,000,000 principal amount of Zero Debentures. Substantially all of the net proceeds of approximately $192,000,000 from the sale of the 14-1/2% Notes are being advanced to McCrory, which will use such proceeds for refurbishing its stores, to purchase investment securities, and for working capital. The net proceeds of approximately $141,000,000 from the sale of the Zero Debentures have been used to purchase 10% Debentures and for working

capital (see Note 23 to Financial Statements).

Restrictions on the net assets of Rapid's subsidiaries have not had and are not expected to have an impact on Rapid's ability to meet its cash obligations (see Notes 6 and 23 to Financial Statements).

See Item 6 - "Selected Financial Data", for the effects of inflation on Rapid's Financial Statements.

Item 8. Financial Statements and Supplementary Data.

See accompanying Index to Financial Statements and Schedules on page F-1.

Item 9. Disagreements on Accounting and Financial Disclosure.

None.

PART III.

Item 10. Directors and Executive Officers of the Registrant.

The following table sets forth the principal occupations and certain related information of Rapid's directors and executive officers as of April 20, 1984:

Name	Age	Principal occupation and related information	Served as director since	Served as officer since
Mona R. Ackerman (a)	38	Director of Rapid-American Foundations; senior editor, Jove Books, from March 1979 to January 1981	1976	-
Harold S. Divine	62	Vice Chairman of the Board of Rapid for more than five years; Executive Vice President of McCrory since January 1983; director of HRT since March 1984; prior thereto senior executive of McCrory for more than five years	1976	1977

Name	Age	Principal occupation and related information	Served as director since	Served as officer since
Arie Genger	38	Private investor; Civil Servant-Government of Israel from January 1982 to January 1983; prior thereto a senior executive of Rapid and certain of its subsidiaries for more than five years	1978	-
Seymour Kleinman(b)	65	Senior partner, law firm of Golenbock and Barell, and Lecturer in Finance and Secured Transactions, Columbia University Law School, for more than five years; Chairman of the Transaction Review Committee of Rapid since August 1979	1979	-
Leonard C. Lane	65	Chairman of the Board of ILC Industries, Inc. ("ILC") (primarily a manufacturer of advanced electronic data converters) for more than five years; Vice Chairman of the Board of Rapid from February 1981 to March 1982; Executive Vice President of Rapid from April 1969 to February 1982	1960	-
Abraham G. Levin	64	Senior partner, law firm of Rubin Baum Levin Constant & Friedman, general counsel to Rapid, for more than five years	1981	-
Carl H. Lindner	64	Vice Chairman of the Board of Rapid since 1982; Chairman of the Board and Chief Executive Officer of AFC for more than five years; President of AFC until February 1984; director of American Financial Enterprises, Inc., The Circle K Corporation, United Brands Company, Penn Central Corporation and Mission Insurance Group, Inc.; nominated for director of Fisher Foods, Inc.	1982	-

Name	Age	Principal occupation and related information	Served as director since	Served as officer since
Carl H. Lindner, III (a)	30	Executive Vice President of Great American Insurance Company, a subsidiary of AFC, since February 1980; prior thereto associated with AFC's banking, insurance, and investment companies for more than five years	1981	-
S. Craig Lindner(a)	28	Senior Executive Vice President of American Money Management Corporation, an investment subsidiary of AFC, since April 1980; prior thereto associated with AFC's banking, insurance, and investment companies for more than five years; a director of HRT since March 1984; a director of American Financial Enterprises Inc., FMI Financial Corporation, United Brands Company, and American Cellular Telephone Corporation	1981	-
Robert C. Lintz(a)	50	Vice President of AFC since April 1979; director of McGregor since August 1983, Faberge and HRT since March 1984; nominee for director of Fisher Foods, Inc.	1981	-
Daniel J. Manella	58	Executive Vice President of Rapid since February 1981; Chairman of the Board of Kenton from September 1978 to January 1981, and Chief Executive Officer of Kenton from February 1979 to January 1981; Chairman of the Board, and Chief Executive Officer of McGregor since May 1981; Chairman of the Board, President, and Chief Executive Officer of Faberge since March 1984	1980	1981

Name	Age	Principal occupation and related information	Served as director since	Served as officer since
Dan Palmon(b)(c)	42	Associate Professor of Accounting, Rutgers University since September 1980; prior thereto Assistant Professor of Accounting, New York University, Graduate School of Business, for more than five years	1979	-
Ira D. Riklis(a)	29	President of Ice Cream Ira's Inc. and Specialty Store Group, Inc. (engaged in the operation of retail food services) since 1979; director of McGregor since August 1983, Faberge since March 1984, HRT since March 1984 and The Computer Factory Inc.	1981	-
Marcia Riklis(a)	33	Vice President of Rapid since May 1980; Assistant to the Chairman of Rapid from October 1977 to May 1980; Vice Chairman of the Board of Schenley since May 1983; director of HRT since March 1984 and of AITS, Inc. ("AITS") (hotel and casino in Las Vegas, Nevada) for more than five years	1981	1980
Meshulam Riklis(a)	60	Chairman of the Board and Chief Executive Officer of Rapid for more than five years and President since September 1980; Chairman of the Board of McCrory since June 1981 and President since March 1982, prior thereto Vice Chairman of the Board of McCrory from May 1977 to June 1981; Chairman of the Board of Schenley from January 1982 to May 1983; Co-Chairman of the Board and President of AITS for more than five years	1955	1955

Name	Age	Principal occupation and related information	Served as director since	Served as officer since
Leo D. Stone(b)(c)	69	Financial Consultant; Lecturer in Finance, University of South Florida, from September 1974 to June 1981; director of McGregor since August 1983, Faberge since March 1984, and Chairman of the Board of Central Reserve Life Corporation	1979	-
Helen H. Updike(b)	43	Special advisor to the Dean of Hofstra College since January 1984; Chairperson, Department of Economics and Geography, Hofstra University from September 1981 to January 1984; Assistant Professor of Economics, Hofstra University from September 1978 to January 1984	1979	-
Stuart H. Aarons	73	Secretary of Rapid for more than five years	-	1972
Bernard J. Blaney	60	Vice President and Treasurer of Rapid and director and Vice President-Finance of McCrory for more than five years	-	1976
Michael J. Magenheim	42	Controller and Assistant Treasurer of Rapid for more than five years	-	1972

(a) Member of the Executive Committee.
(b) Member of the Transaction Review Committee.
(c) Member of the Audit Committee

There are no family relationships among any of the directors or executive officers of Rapid, except that Mona R. Ackerman, Marcia Riklis, and Ira D. Riklis are Meshulam Riklis' children and Carl H. Lindner, III, and S. Craig Lindner are Carl H. Lindner's sons.

The term of office of each director expires at the next annual meeting of Rapid's stockholders or when such director's successor is elected and has duly qualified. Except for the members of the Transaction Review Committee of

the Board of Directors, there are no arrangements or understandings between any of the directors of Rapid and any other person pursuant to which such person was selected as a director of Rapid (see Item 3 - "Legal Proceedings - Securities and Exchange Commission"). For a description of the proposed agreement between Riklis Family Corporation and AFC regarding the voting of their shares of Rapid Common Stock, see Item 12 - "Security Ownership of Certain Beneficial Owners and Management". Members of the Transaction Review Committee each receive $36,000 per annum for serving as directors and members of such Committee and the Chairman of the Committee receives $40,000 per annum. Carl H. Lindner receives $50,000 per month for serving as a director and a Vice Chairman of the Board. Mona R. Ackerman, Marcia Riklis, Ira D. Riklis, Carl H. Lindner, III, and S. Craig Lindner each receive $180,000 per annum for serving as directors and as members of the Executive Committee of the Board of Directors. None of the other directors of Rapid receives any compensation for serving as a director. Leo D. Stone receives $15,000 per annum for serving as a director of McGregor. Each of the executive officers of Rapid holds office at the pleasure of the Board of Directors. There are no arrangements or understandings between any of the executive officers of Rapid and any other person pursuant to which such person was selected as an executive officer of Rapid.

During the past five years, neither Rapid nor any of its officers or directors has been convicted in any criminal proceeding (excluding traffic violations or similar misdemeanors). Except as set forth in Item 3 - "Legal Proceedings - Securities and Exchange Commission", and except as set forth below, during the past five years neither Rapid nor any of its officers or directors was a party to a civil proceeding of a judicial or administrative body of competent jurisdiction whereby such party was or is subject to a judgment, decree or final order enjoining further violations of, or prohibiting activities subject to, Federal or state securities laws or finding any violation of such laws.

In connection with an action instituted by the Commission against AFC, Carl H. Lindner and others filed in the Federal District Court for the District of Columbia (Case No. 79-1701), AFC and Carl H. Lindner entered into a consent decree on July 2, 1979, without admitting or denying the allegations in the Commissions's complaint. The consent decree enjoins them from violations of certain of the antifraud, reporting and proxy provisions of the Federal securities laws which include prohibitions against making misstatements or omitting to state material facts in certain reports or documents issued or filed by AFC. The Commission's complaint alleged violations by each defendant of Section 17(a) of the Securities Act of 1933, and Sections 10(b), 13(a), and Schedule 14A of the Securities Exchange Act of 1934 and Rule 10b-5 and other rules thereunder in connection with various transactions, certain of which were alleged in the Commission's complaint not to be in the ordinary course of business and certain of which transactions were alleged not to have been disclosed, including among other things, undisclosed financial transactions by or involving AFC and its subsidiaries, Mr. Lindner, and certain officers and directors (and their relatives) of such companies, including loans to officers, directors and related parties, and certain transactions between businesses owned by Mr. Lindner and AFC. With respect to these matters, Mr. Lindner has paid AFC $1,400,000, the amount required by the consent decree.

Item 11. Executive Compensation.

The following table sets forth for the fiscal year ended January 31, 1984, the cash compensation of the five most highly compensated executive officers of Rapid and the cash compensation of all executive officers as a group:

Name of individual or number in group	Capacities in which served	Cash compensation (1)
Meshulam Riklis	Chairman of the Board, President, and Chief Executive Officer of Rapid and McCrory	$1,206,853
Daniel J. Manella	Chairman of the Board and Chief Executive Officer of McGregor and Executive Vice President of Rapid	914,951
Harold S. Divine	Vice Chairman of the Board of Rapid and Executive Vice President of McCrory	818,798
J. Philip Lux	President and Chief Operating Officer of McCrory Stores Division	535,202
Ben Litwak	Chairman and Chief Executive Officer of McCrory Stores Division	502,541
All executive officers as a group (7 in number)		4,718,171

(1) All of the individuals named in the table and certain other executive officers are covered by a medical insurance plan which covers certain executives. Under this plan, premiums are paid to an insurance company and the insurance company pays benefits, in accordance with the terms of the policy, directly to the executives, based upon claims submitted. The amount of the premium paid to the insurance company for each of the named individuals and the group is included in the table. Does not include interest differential with regard to loans made at less than the current prime rates (see Item 13 - "Certain Relationships and Related Transactions").

All seven executive officers participate in pension plans sponsored by subsidiaries of Rapid. Messrs. Riklis, Manella, Divine, and two others participate in a McCrory corporate plan. Messrs. Lux and Litwak participate in a McCrory Stores plan. Both of these plans are "career-average" salary plans in which the annual benefit is determined by a summation of a certain percentage of compensation for each year of credited service.

The McCrory corporate plan is a noncontributory defined benefit pension plan which covers employees of McCrory's home office. This plan provides for benefits equal to 1% of 1975-1979 average compensation not in excess of $15,000 plus 1.5% of such average compensation in excess of $15,000 for each year of participation up to January 1, 1980 plus 1% of compensation up to the Social Security Wage Base and 1.5% of compensation in excess of the Social Security Wage Base for each year of participation subsequent to 1979. In general, the compensation covered by this plan is total earnings as reported on Form W-2 for each year. Compensation does not, however, include any special bonus. The maximum annual benefit currently provided under this plan is $90,000. The estimated annual benefits payable at retirement at normal retirement age as a straight life annuity to Messrs. Riklis, Manella, and Divine are $136,425, $70,268, and $49,785, respectively. As a result of the Tax Equity and Fiscal Responsibility Act of 1982, normal retirement benefits are subject to a maximum of the greater of $90,000 or the individual's accrued benefit at December 31, 1982. Mr. Riklis had an accrued benefit of $136,425 as of December 31, 1982, and will therefore retain the right to receive this benefit.

The McCrory Stores plan is a noncontributory defined benefit pension plan which covers employees of McCrory Stores. This plan provides for benefits equal to 1% of 1975-1979 average compensation not in excess of $15,000 plus 1.5% of such average compensation in excess of $15,000 for each year of participation up to January 1, 1980 plus 1% of compensation up to the Social Security Wage Base and 1.5% of compensation in excess of the Social Security Wage Base for each year of participation subsequent to 1979. In general, the compensation covered by this plan is total earnings as reported on Form W-2 for each year. Compensation does not, however, include any special bonus. The maximum annual benefit currently provided under this plan is $50,000. The estimated annual benefits payable at retirement, as a straight life annuity to Messrs. Lux and Litwak are $50,000 each. Mr. Litwak reached normal retirement age in July 1980 and will not accrue any additional benefits under this plan.

The following table sets forth at January 31, 1984, the maximum estimated retirement benefits (including contractual obligations) payable to the persons and group specified in the table above:

Name of individual or number in group	Estimated annual retirement benefits: Pension plans	Employment contracts	Total
Meshulam Riklis	$136,425	-	$136,425
Daniel J. Manella	70,268	$ 29,732	100,000
Harold S. Divine	49,785	50,215	100,000
J. Philip Lux	50,000	-	50,000
Ben Litwak	50,000	40,000	90,000
All executive officers as a group (7 in number)	506,833	119,947	626,780

In order to facilitate the performance of their business duties, Rapid provides certain of its officers and directors with the use of corporate owned or leased automobiles, aircraft, hotel accommodations, and certain club memberships.

Employment Agreements

Meshulam Riklis

Effective November 20, 1982, Rapid entered into an employment contract with Mr. Riklis, as Chief Executive Officer, for a period of five years. The contract provides for an annual salary of $600,000, plus incentive compensation at the rate of 1% of Rapid's Net Income (as defined) in each fiscal year. Such $600,000 annual salary is payable in any event, even if Mr. Riklis' employment is terminated by death, disability or discharge with or without cause. This contract superseded all previous contracts, with the exception of a contract with McCrory, which provides that under certain circumstances Mr. Riklis would receive from McCrory a retirement allowance of $15,000 per year. The contract provides for deferred compensation to be earned at the rate of not less than $50,000 per year, payable following termination of Mr. Riklis' employment. The contract also provides for the payment of a retirement allowance for life following the termination of Mr. Riklis' employment at the rate of $100,000 per year, and upon Mr. Riklis' death, payments will continue to his widow at the rate of $50,000 per year for her life; any pension plan benefits are deducted, and payments are subject to other limits and restrictions on competition with Rapid, and are reduced by the receipt of disability payments. As a condition to such retirement payments Mr. Riklis must be available for advisory services to the extent permitted by his health for a period of up to 12 business days a year. Mr. Riklis and his widow forfeit their retirement benefits if, within one year after termination of employment, Mr. Riklis engages directly or indirectly in any activity competitive with the business of Rapid or any division or subsidiary thereof. In the event Mr. Riklis becomes incapacitated during employment, and should such incapacity continue until termination of his employment, Mr. Riklis is to receive disability benefits at the rate of $100,000 per year for life, less any amounts earned from other employment. In the event of Mr. Riklis' death, his widow or his surviving children or his estate is to receive death benefits of $500,000, plus one year's incentive compensation (in addition to the incentive compensation earned by, but not yet paid to, Mr. Riklis prior to his death) payable over a 10 year period. The contract provides that certain insurance policies owned by Rapid shall be assigned to Mr. Riklis. Rapid will continue to pay the premiums on such policies, and may apply the cash surrender value of the policies to the payment of such premiums.

As an inducement to enter into the contract, Rapid agreed to make certain loans to Mr. Riklis in the aggregate principal amount of $25,000,000. For a description of such loans, see Item 13 - "Certain Relationships and Related Transactions", paragraph 4.

Daniel J. Manella

Mr. Manella, an Executive Vice President and director of Rapid and a Senior Executive of McCrory, is employed under an employment contract with McCrory effective December 15, 1983 through January 31, 1989. The contract superseded all prior contracts with McCrory and its affiliated companies except for his employment contract with McGregor. The contract provides for a base salary of not less than $500,000 a year and a bonus of $500,000 payable in two annual instalments which commenced in January 1984. If Mr. Manella dies before the entire bonus has been paid, the remaining instalment will be paid to his designees or to his estate. If Mr. Manella breaches his agreement not to compete before the entire bonus is paid, the remaining instalment of the bonus is forfeited. During the period of Mr. Manella's employment under the contract, McCrory will maintain insurance on his life in an amount not less than 125% of the annual rate of Mr. Manella's base salary. If Mr. Manella becomes incapacitated for a period of at least 11 consecutive months, and his employment is terminated, or if his employment ends on January 31, 1989 because of the expiration of his period of employment he will receive a retirement benefit of $8,333.33 a month until his death, less disability payments under any disability benefit plans. If Mr. Manella dies and is survived by his wife, she will receive monthly retirement benefits of $4,166.66 a month beginning when Mr. Manella dies until her death, less any pension plan benefits. The contract provides for a severance bonus of $7,000,000, payable to Mr. Manella or to the person designated by him in writing during his lifetime or to his estate failing such designation within 60 days after the earliest to occur of the termination of the contract by (i) its expiration, (ii) his death or (iii) his disability. Mr. Manella forfeits any remaining bonus payments, disability benefits, and severance bonus, and his wife forfeits her monthly retirement benefits, if within two years after termination of his employment Mr. Manella engages directly or indirectly, in any activity competitive with McCrory or any of its affiliated companies in which he was involved while employed or if Mr. Manella is discharged for serious misconduct. Deferred compensation of $100,000 earned by Mr. Manella under a prior employment agreement with Rapid will be paid to Mr. Manella, and after his death to the person designated by him in writing in his lifetime or, failing such designation to his estate, within 30 days after written request therefor. All of Mr. Manella's benefits under his contract with McCrory are reduced by any benefits payable to Mr. Manella under his contract with McGregor. Mr. Manella's contract with McGregor provides for, among other things, an annual salary of not less than $200,000.

Harold S. Divine

Mr. Divine, a Vice Chairman of the Board of Rapid and an Executive Vice President of McCrory, is employed as a senior executive under an employment contract with McCrory effective December 15, 1983 through January 31, 1989. The contract superseded all prior contracts with McCrory and its affiliated companies. The contract provides for a base salary of not less than $500,000 a year. During the period of Mr. Divine's employment under the contract, McCrory will maintain insurance on his life in an amount not less than 125% of the annual rate of Mr. Divine's base salary. If Mr. Divine becomes incapacitated for a period of at least 11 consecutive months and his

employment is terminated or if his employment ends on January 31, 1989 because of the expiration of his period of employment he will receive $8,333.33 a month until his death less disability payments under any disability benefit plans. If Mr. Divine dies and is survived by his wife, she will receive monthly retirement benefits of $4,166.66 a month beginning when Mr. Divine dies until her death less any pension plan benefits. The contract provides for a severance bonus of $7,000,000, payable to Mr. Divine or to the person designated by him in writing during his lifetime or to his estate failing such designation within 60 days after the earliest to occur of the termination of the contract by (i) its expiration, (ii) his death or (iii) his disability. Mr. Divine forfeits his disability benefits and severance bonus and his wife forfeits her monthly retirement benefits if within two years after termination of his employment Mr. Divine engages directly or indirectly in any activity competitive with McCrory or any of its affiliated companies in which he was involved while employed or if Mr. Divine is discharged for serious misconduct.

J. Philip Lux

Mr. Lux, President and Chief Operating Officer of McCrory Stores Division, is employed as a senior executive officer under a five year employment agreement with McCrory, effective February 1, 1982, at an annual base salary of not less than $135,000 for the first year, $140,000 for the second year, $145,000 for the third year, and $150,000 for the last two years, and an annual bonus through January 31, 1987 equal to a certain percentage of the division's aggregate executive bonus fund. The bonus is prorated if the employment of Mr. Lux is terminated by reason of his death or disability. The employment of Mr. Lux may be terminated after six consecutive months of disability on 10 days' notice. In the event Mr. Lux's employment is terminated because of incapacity, he is to receive monthly disability benefits equal to one-third of his monthly base salary when his employment terminates less any monthly pension payments and any other monthly disability payments. McCrory may, in its discretion, terminate the bonus payments and disability benefits if, within one year after termination of his employment, Mr. Lux engages directly or indirectly in any activity competitive with McCrory or any of its affiliated companies, or, within two years after termination of his employment, Mr. Lux employs certain former employees of McCrory or any of its affiliated companies, or if Mr. Lux is discharged for serious misconduct.

Ben Litwak

Mr. Litwak is employed by McCrory as Chief Executive Officer of its McCrory Stores Division through January 31, 1987 under a contract effective November 30, 1982 at an annual salary of not less than $200,000. The contract superseded all other employment contracts between Mr. Litwak and McCrory. Mr. Litwak also receives incentive compensation at the rate of 1% of the before-tax earnings (as defined) of the McCrory Stores Division in excess of $20,000,000 for each fiscal year up to a maximum incentive compensation of $300,000 in each fiscal year. Deferred compensation of $62,500 earned under a prior employment agreement will be paid to Mr. Litwak, or after his death to his designees or estate, in 30 equal monthly instalments beginning when his employment ends. If Mr. Litwak becomes incapacitated for a period of at least

11 consecutive months, his employment may be terminated. The contract provides for the payment of a retirement allowance to Mr. Litwak of $90,000 a year for life beginning after the termination of his employment, less certain pension payments. Upon Mr. Litwak's death during or after the termination of his employment by McCrory, his present wife, if she survives him, or certain other persons if she does not, will be paid a retirement allowance of $45,000 a year, less certain pension payments. If Mr. Litwak voluntarily retires or resigns at any time prior to the termination of the contract or expiration of the term of the contract, the monthly retirement payments will be paid to Mr. Litwak or his wife. If Mr. Litwak dies while employed, his base salary for six months will be paid in 60 equal monthly instalments to his present wife, if she survives him, or to certain other persons if she does not. In addition, upon the termination of the contract or upon Mr. Litwak's death or disability during his employment, McCrory shall pay to Mr. Litwak, or his present wife, if she survives him, or certain other persons if she does not, $600,000. All unpaid incentive compensation, deferred compensation, retirement benefits and death benefits are forfeited by all persons if Mr. Litwak within one year after the termination of his employment engages directly or indirectly in any activity competitive with the McCrory Stores Division or if Mr. Litwak is discharged for serious misconduct.

Leonard C. Lane

Mr. Lane, a director of Rapid, was employed as a senior executive officer under an employment agreement with Rapid. In accordance with a severance agreement, dated February 3, 1982, the employment agreement and Mr. Lane's employment by Rapid were terminated on March 31, 1982. The severance agreement provided that (i) Mr. Lane will continue to participate in Rapid's medical plan until the earlier of March 31, 1992 or his death, (ii) in lieu of the retirement benefits provided for by his employment agreement, Mr. Lane will receive monthly retirement benefits at the rate of $100,000 per year for his life and upon his death, the monthly retirement benefits will continue to his present wife, if she survives him and is married to him at the time of his death, during her life at the rate of $50,000 per year, (iii) if Mr. Lane dies prior to March 31, 1992 and his wife does not survive him the monthly retirement benefits at the rate of $50,000 per year shall be paid to Mr. Lane's estate until March 31, 1992, and (iv) the $336,250 of deferred compensation under the employment agreement will be paid to Mr. Lane or his estate in 60 equal monthly instalments commencing April 30, 1982.

Arie Genger

Mr. Genger, a director of Rapid, was employed as a senior executive officer under an employment agreement with McCrory. In accordance with a severance agreement, dated December 1, 1981, the employment agreement and Mr. Genger's employment by McCrory were terminated on January 31, 1982. The severance agreement provided that (i) McCrory keep $2,000,000 of life insurance in force and effect through January 1987, at which time Mr. Genger or his designee can purchase such policy by delivering to McCrory a promissory note in the amount of approximately $81,000 payable January 10, 1989, and designating McCrory as beneficiary of the policy to the extent of

approximately $92,000, (ii) Mr. Genger will continue to participate in McCrory's medical plan for medical services rendered in the United States until the earlier of January 31, 1997 or his death, (iii) Mr. Genger will receive monthly retirement benefits at the rate of $45,000 per year for his life and upon death the monthly retirement benefits will continue to his widow, during her life at the rate of $22,500 per year, and (iv) if Mr. Genger becomes physically or mentally disabled for a period of at least three consecutive months during the period through January 31, 1987, he shall be entitled to receive monthly disability payments for his life or until the disability or incapacity ends of $50,000 per year adjusted for cost of living increases and reduced by any payments under McCrory's disability plan.

Bernard J. Blaney

Mr. Blaney, Vice President - Finance, Treasurer and a director of McCrory and Vice President and Treasurer, of Rapid, entered into a contract with McCrory effective July 1, 1981, to be employed as an executive through June 30, 1986, which is automatically renewable for an additional period of five years unless six months' prior notice of intention not to renew is given by either party. The contract superseded all prior contracts with McCrory and Rapid. The contract provides for an annual salary of not less than $250,000. If Mr. Blaney becomes incapacitated for a period of at least 11 consecutive months, his employment may be terminated, in which event he is to receive disability benefits at the rate of $50,000 per year, subject to certain reductions, until his 65th birthday. The contract also provides for the payment of a retirement allowance of $40,000 per year, less pension benefits, for life commencing at age 65 (or earlier upon disability), if the term of employment ends on June 30, 1986. In the event the contract is renewed for an additional period of five years the retirement allowance is increased to $50,000 per year. Upon Mr. Blaney's death his present wife, if she survives him, is to receive 50% of the retirement allowance during her lifetime. McCrory may, in its discretion, terminate the retirement allowance if, within one year after termination of Mr. Blaney's employment, he engages directly or indirectly in any activity competitive with the business of McCrory or any of its affiliated companies or if Mr. Blaney is discharged for serious misconduct. After the termination of Mr. Blaney's employment he shall be available for advisory services to the extent permitted by his health for a period of up to 12 business days a year.

Charles L. Jarvie

Effective February 1, 1984, Schenley employed Mr. Charles L. Jarvie as its President and Chief Executive Officer under a five year employment agreement. The agreement provides, among other things, for annual compensation of $500,000 and for a lump sum payment at the expiration of the agreement of $5,000,000, plus an additional $5,000,000 dependent upon Schenley's operating profits. In connection with the agreement, Schenley loaned Mr. Jarvie $1,000,000 evidenced by his unsecured, noninterest bearing demand note.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

The following table sets forth certain information with respect to persons known by management to own beneficially more than 5% of any class of voting securities of Rapid as of April 20, 1984:

Title of Class	Name and Address of Beneficial Owner	Shares Beneficially Owned	Percent of Class
Common Stock	Riklis Family Corporation (a) 888 Seventh Avenue New York, NY 10106	1,461,364	60%
	American Financial Corporation (b) One East Fourth Street Cincinnati, OH 45202	974,243	40%

(a) Meshulam Riklis is the beneficial owner of all of the shares of senior voting preferred stock of Riklis Family Corporation, the ownership of which constitutes voting control thereof. Trusts for the benefit of Mr. Riklis' descendants (including Mona R. Ackerman, Marcia Riklis, and Ira D. Riklis, who are directors of Rapid) own substantially all of the remaining equity interest in Riklis Family Corporation.

(b) Carl H. Lindner (director and Vice Chairman of the Board of Rapid) is the beneficial owner of 50.5% of the outstanding common stock of AFC, the ownership of which constitutes voting control thereof. The balance of the common stock of AFC is owned by members of Mr. Lindner's family (including Carl H. Lindner, III and S. Craig Lindner, who are directors of Rapid) and trusts for their benefit.

As a result of the Merger (see "Introductory Note"), Rapid became a privately-held corporation, and except as set forth herein, the directors and officers of Rapid do not own any of Rapid's equity securities or any equity securities of any Rapid subsidiaries. During February 1981, Riklis Family Corporation granted an option to purchase up to 97,424 shares of Rapid Common Stock (approximately 4% of the class) to a partnership, of which Abraham G. Levin, a director of Rapid, is the managing partner, composed of certain partners (and members of their families) of the law firm of Rubin Baum Levin Constant & Friedman, general counsel to Rapid. Mr. Levin is the senior partner of Messrs. Rubin Baum Levin Constant & Friedman. The option is exercisable for a period of 30 years from the date of grant (subject to earlier termination upon a disposition by Riklis Family Corporation of its shares of Rapid Common Stock) at an exercise price of $30.79 per share. In addition, during October 1983, Riklis Family Corporation sold shares of its newly created class of exchangeable preferred stock, exchangeable at any time for an aggregate of approximately 4% of the outstanding shares of Rapid's Common Stock, to two privately-held corporations, one of which is controlled by Harold S. Divine, a director of Rapid, and the other by a consultant to

Rapid. The foregoing rights are subject to the security interests granted to a bank in the shares of Rapid Common Stock owned by Riklis Family Corporation (see the description of such security interests below in this Item 12).

The directors and officers of Rapid own less than 1% of the outstanding shares of common stock of McGregor.

In connection with the Merger, Riklis Family Corporation, AFC and Rapid have agreed to enter into a stockholders' agreement relating to the Rapid Common Stock, which will principally reflect the following:

1. Neither Riklis Family Corporation nor AFC will sell or dispose of any of its Rapid Common Stock without affording the other stockholders and Rapid the right of first refusal on the same terms to acquire such shares; provided, however, that Riklis Family Corporation shall be entitled to sell or dispose of up to an aggregate of 9% of the total outstanding shares of Rapid Common Stock (to a limited number of persons all of whom will have agreed to join in the stockholders' agreement) without affording AFC and Rapid the right of first refusal (see the description above of the rights to purchase shares of Rapid Common Stock granted by Riklis Family Corporation).

2. Riklis Family Corporation will agree that if it sells shares of Rapid Common Stock (other than sales of up to an aggregate of 9% of the total outstanding shares) it will obtain from the purchaser an option in favor of AFC to sell the same proportion of the shares of Rapid Common Stock owned by AFC on the same per share terms as the shares sold by it.

3. So long as AFC continues to own at least 15% of the total outstanding shares of Rapid Common Stock, Rapid will not issue additional shares of Rapid Common Stock without affording AFC and Riklis Family Corporation preemptive rights to ensure each of them the ability to own sufficient shares of Rapid Common Stock to retain their then respective percentage ownership of Rapid Common Stock.

4. AFC and Riklis Family Corporation will agree to vote their shares of Rapid Common Stock to elect the members of the Transaction Review Committee to the Board of Directors of Rapid until at least August 15, 1984 (see Item 3 - "Legal Proceedings - Securities and Exchange Commission").

5. AFC will have the right at any time to cause Rapid to purchase all, but not less than all of the shares of Rapid Common Stock owned by AFC in the following manner. Unless the parties otherwise agree, AFC and Riklis Family

Corporation shall each select an arbitrator (which shall be a nationally recognized investment or commercial bank or accounting firm), which arbitrators shall, if they are unable to agree on the terms of the purchase, select a third arbitrator who shall determine the terms of the purchase; provided, however, that the consideration to be paid and the method of payment for such shares must comply with certain restrictions relating to the repurchase of shares of Rapid capital stock contained in certain of Rapid's indentures (see Item 5 - "Market for the Registrant's Common Equity and Related Stockholder Matters"). The decision reached in the arbitration shall be final and binding upon the parties.

6. Upon the death, permanent disability or mental incapacity of Meshulam Riklis or his failure or inability, by reason of sale or otherwise, to maintain majority voting control, directly or indirectly, of Rapid Common Stock, AFC shall have the right to cause Rapid to purchase all, but not less than all, of the shares of Rapid Common Stock owned by it by giving notice to Rapid and Riklis Family Corporation that it desires Rapid to purchase such shares setting forth a per share price, method of and the security, if any, for payment. For a period of ninety (90) days following the notice, Riklis Family Corporation shall have the right to cause Rapid to purchase all, but not less than all, shares of Rapid Common Stock owned by it in lieu of purchasing the shares of AFC, on the same terms specified in AFC's notice. The terms of any purchase must comply with the restrictions described in paragraph 5 above.

Rapid has been advised that Mr. Riklis has borrowed money from Seattle-First National Bank ("Seattle"), which obligation has been assumed by Mr. Riklis' wholly-owned entity, is payable in instalments through 1984, and bears interest at a rate related to Seattle's prime rate; provided, however, that at any time Seattle has the right to demand payment of the loan. The loan is secured by a security interest in all of the shares of Rapid Common Stock owned by Riklis Family Corporation, and the senior voting preferred stock of Riklis Family Corporation. In addition, Rapid has been advised that Mr. Riklis has entered into an agreement with Chemical Bank ("Chemical") which restructured and restated Mr. Riklis' outstanding indebtedness to Chemical. The indebtedness is payable on December 31, 1985, with the portion representing principal, bearing interest at a fixed rate which is less than the current prime rate, and with the portion representing accrued interest not bearing additional interest. If there is an event of default under the agreement, the entire indebtedness would bear interest at Chemical's prime rate. Subject to the prior security interest of Seattle, Chemical was granted a security interest in the securities pledged to Seattle. In addition, Chemical was granted a security interest in certain other collateral. In the absence of a default of Mr. Riklis' obligations to Seattle or Chemical, Riklis Family Corporation has the right to vote the shares of Rapid Common Stock held

as collateral. In connection with the restructuring of Mr. Riklis' indebtedness, Chemical granted an option to AFC which provides that if an event of default occurs under the agreement, Chemical would notify AFC which would then have the right to acquire at the face value thereof Chemical's claims against Mr. Riklis together with the collateral securing such claims. In the event of a default in the repayment of Mr. Riklis' obligations to either Seattle or Chemical, any resulting foreclosure upon the shares of Rapid Common Stock could result in a change of control of Rapid. Rapid has been advised that Chemical has purchased the Seattle loan.

Chemical was the Agent Bank under McCrory's Credit Agreement, dated as of June 19, 1981, which was terminated in March 1984. Reference is made to Note 6 to Financial Statements for a description of the McCrory Credit Agreement.

Item 13. Certain Relationships and Related Transactions.

1. Meshulam Riklis owns all of the capital stock of KGA Industries, Inc. ("KGA"), and Mr. Riklis and Daniel J. Manella are directors of KGA. A now discontinued division of KGA was a manufacturer of ladies fashion belts. In calendar year 1983, purchases by subsidiaries of Rapid of merchandise from such division, all of which were made in the ordinary course of business, totalled approximately $355,000 (which constituted approximately 39% of such division's sales for such year). In the opinion of management, the purchases of merchandise from KGA were made at prices comparable to those that would be obtained in similar transactions with unrelated parties.

2. On November 1, 1981, Rapid exercised an option and completed the acquisition of the stock of ARG from Hamilton Corporation ("Hamilton") for approximately $6,500,000. When the option was granted, Mr. Riklis and his children owned 49% of the capital stock of Hamilton, and, prior to its purchase by Hamilton, Mr. Riklis owned all of the capital stock of ARG through a wholly-owned corporation. During September 1981, Mr. Riklis and his children sold their shares of capital stock of Hamilton to the holder of the balance of the shares. Hamilton acquired the capital stock of ARG on February 2, 1981 for $6,000,000 and guaranteed the payment of certain bank indebtedness and certain other indebtedness.

3. On January 1, 1984, Rapid and ARG sold to World Wide Distributors, Inc. ("World Wide"), a wholly-owned subsidiary of KGA, all of the assets of ARG (which included the assets of Melville and Plastic Toy). In consideration for the sale of the assets, World Wide paid $14,000,000 and assumed all of ARG's liabilities. For the accounting treatment afforded the foregoing transactions reference is made to Note 9 to Financial Statements. In connection with the foregoing transaction, World Wide borrowed $13,000,000 from a bank (currently $11,000,000) secured by certain assets, and Rapid has guaranteed such indebtedness. One of the liabilities assumed was an intercompany indebtedness of approximately $5,000,000 due to Rapid, which bears interest at 110% of prime, is payable on demand, and is secured by a junior lien on inventory. Upon consummation of the transaction the assets and liablilities of ARG relating to its bicycle divisions (including approximately $2,500,000 of the aforesaid intercompany indebtedness to Rapid) were transferred to a limited

partnership, the general partner of which is World Wide and the limited partners of which are AFC and a corporation wholly-owned by Daniel J. Manella.

During the year ended January 31, 1984, purchases by subsidiaries of Rapid of merchandise from and commissions paid to ARG and its divisions, all of which were made in the ordinary course of business, totalled approximately $1,960,000 (which constituted approximately 3% of their combined net revenues). In the opinion of management, the purchases from and commissions paid to ARG and its divisions were made at prices comparable to those that would be obtained in similar transactions with unrelated parties.

4. As an inducement for Mr. Riklis to enter into a new employment agreement (see Item 11 - "Executive Compensation - Employment Agreements - Meshulam Riklis"), Rapid loaned Mr. Riklis $12,500,000 on February 1, 1983 (the "First Loan"), payable as set forth below, and agreed to loan Mr. Riklis $12,500,000 on or before December 31, 1985 (the "Second Loan"). If certain financial criteria are not met, Rapid, in its sole discretion, may delay making the Second Loan until December 31, 1987. The Second Loan shall be made to Mr. Riklis, whether his employment by Rapid shall terminate by reason of death, resignation, discharge with or without cause, or otherwise. The Second Loan will bear interest per year at the rate of 10%, payable annually, and is payable on December 31, 1988 (or if made on December 31, 1987, it will be payable on December 31, 1990); provided, however, that prior to the due date of the Second Loan, Mr. Riklis has the right to collateralize the Second Loan by pledging with Rapid 10% Debentures in the principal amount of the Second Loan, and thereby extend the maturity date to August 1, 2006.

In addition to the First Loan, during the fiscal year ended January 31, 1983, and thereafter, Mr. Riklis or his wholly-owned entities borrowed an aggregate of $12,500,000 from Rapid, which was initially payable on demand and bore interest at the rate per year of 110% of the prime rate of Chemical in effect from time to time, payable annually.

The aggregate indebtedness to Rapid of $25,000,000, was evidenced by two promissory notes, each in the principal amount of $12,500,000. One promissory note, which was payable on demand (the "Demand Note"), bore interest at the rate of 110% of the prime rate of Chemical, plus 7%, was assumed by World Wide and guaranteed by Mr. Riklis, has been paid (see paragraph 5 below). The other promissory note is payable on February 1, 1986 (which maturity date may be extended to August 1, 2006 by Mr. Riklis securing his obligations thereunder by delivering to Rapid $12,500,000 principal amount of 10% Debentures) bears interest at the rate of 3% per year payable annually, was assumed by Mr. Riklis and guaranteed by World Wide. See Note 10 to Financial Statements.

5. In January 1984, Rapid made noninterest bearing demand loans to World Wide in the amount of $15,000,000 and to AFC in the amount of $10,000,000. Commencing January 1, 1986, Rapid will not pay any dividends while either of the aforesaid loans is outstanding unless such dividends are applied in reduction of such loans. Contemporaneously with the foregoing, World Wide repaid the Demand Note. For the maximum amount of indebtedness owed to Rapid by Mr. Riklis and his wholly-owned entities during the year ended January 31, 1984 reference is made to Note 10 to Financial Statements.

6. On February 29, 1984, Rapid entered into agreements with World Wide and AFC to acquire from them an aggregate of $30,000,000 principal amount of Rapid's 7% Subordinated Debentures, due 1994. Pursuant to such agreements, Rapid issued its negotiable promissory notes, due March 1, 1986, in an aggregate principal amount of $30,000,000, bearing interest at 110% of prime. World Wide and AFC have agreed to deliver such debentures to Rapid by March 1, 1986. Rapid will receive all interest accruing on such debentures from March 1, 1984. The market price of such debentures, as of March 1, 1984, was approximately 60% of principal amount. See Note 23 to Financial Statements.

7. During September 1983, a partnership, whose principal partner is Mr. Riklis, borrowed $4,000,000 from a bank secured by certain of the partnership's assets and used the proceeds to repay to Rapid certain indebtedness. Rapid guaranteed the obligation of such partnership to the bank.

8. As of January 31, 1984, certain unsecured obligations of Mr. Riklis to a bank of approximately $2,700,000 were guaranteed by Rapid.

9. Mr. Riklis owns approximately 51% of the issued and outstanding shares of capital stock of AITS and is Co-Chairman of the Board of Directors and President of AITS. During August 1983, Hotel Riviera, Inc. ("Riviera"), a wholly-owned subsidiary of AITS and its only operating asset, filed a petition under Chapter 11 of the United States Bankruptcy Code. Riviera operates the Hotel Riviera in Las Vegas, Nevada. At the time of such filing, Mr. Riklis was Chairman of the Board of Directors and Chief Executive Officer of Riviera and is currently Vice Chairman of the Board. During March 1983, Mr. Riklis agreed to transfer his shares of AITS common stock to a wholly-owned subsidiary of KGA, subject to the consent of the Nevada Gaming Authority. During April 1984, AITS announced that it intends to file a petition seeking reorganization under Chapter 11 of the United States Bankruptcy Code.

During September 1982, Rapid acquired from a bank for $1,240,000 the obligations of AITS to the bank in the principal amount of $3,121,240, together with the accrued and unpaid interest thereon. In addition, during February 1983, Rapid acquired from a bank for $3,550,000 the obligations of AITS and Riviera to the bank in the aggregate principal amount of $8,750,000, together with the accrued and unpaid interest thereon (the AITS and Riviera indebtedness acquired by Rapid from such banks are hereinafter collectively referred to as the "Indebtedness"). In connection with the acquisition of the Indebtedness Rapid also acquired the rights of the banks under a pledge agreement, dated December 3, 1974, pursuant to which all of the capital stock of Riviera is pledged to secure the Indebtedness. Rapid and AITS have entered into an agreement regarding the discount attributable to Rapid's purchase of the Indebtedness at less than the face amount thereof. Rapid has assigned to AITS, for the benefit of its stockholders (excluding Messrs. Riklis and Isidore A. Becker [former Vice Chairman of the Board of Rapid] and members of Mr. Becker's family), approximately 25% of any payments of the Indebtedness in excess of $4,790,000 (the aggregate amount Rapid paid for the Indebtedness), plus imputed interest on the $4,790,000 equal to 1/2% over prime. Any payments of the Indebtedness will be first applied against the imputed interest and then against the remaining balance of $4,790,000. In addition, during the two fiscal years ended January 31, 1984, AITS borrowed an aggregate

of $221,000 from Rapid, due on demand. See Note 10 to Financial Statements.

10. During the fiscal year ended January 31, 1983, Riklis Family Corporation (see "Introductory Note" and Item 12 - "Security Ownership of Certain Beneficial Owners and Management") borrowed from Rapid an aggregate of $5,000,000. Such indebtedness is evidenced by promissory notes payable in 1987, together with accrued interest computed at the rate of 15% per year compounded semi-annually. Rapid has been advised that all of the proceeds of the loans were in turn advanced to Riviera. The principal asset of Riklis Family Corporation is its investment in Rapid Common Stock. See Note 10 to Financial Statements.

11. During December 1981, Mr. Becker borrowed $2,000,000 from Rapid. The loan is unsecured and is evidenced by Mr. Becker's noninterest bearing demand note. Rapid has been advised that the proceeds of the loan were in turn advanced to Riviera. Mr. Becker and members of his family own approximately 24% of the capital stock of AITS (see paragraphs 9 and 13).

12. During February 1983, Schenley acquired from a bank for $2,175,000 the obligations of Mr. Becker in the amount of $2,175,000, together with the right to certain collateral consisting of obligations of AITS to Mr. Becker (see paragraph 13 below).

13. A corporation, wholly-owned by Mr. Riklis, is in the process of acquiring from two financial institutions approximately $11,000,000 of the Riviera's indebtedness to such institutions, together with all of the shares of AITS common stock owned by Isidore Becker and members of his family. Such corporation will deliver to the financial institutions its interest bearing promissory notes in the aggregate principal amount of the indebtedness acquired, payable over a five year period and will return to Mr. Becker his guarantees of the aforesaid indebtedness together with certain collateral which had been deposited by him in connection therewith. Mr. Riklis has agreed to guarantee one of the notes (approximately $7,300,000) and Rapid has agreed to guarantee Mr. Riklis' obligation thereunder. Riklis Family Corporation has agreed to guarantee the obligation under the other note (approximately $3,700,000). During April 1984, Rapid and Schenley entered into agreements with Mr. Becker providing that Mr. Becker's aggregate indebtedness of $4,175,000 to Rapid and Schenley will be deemed repaid by his assignment to Rapid and Schenley of certain obligations of AITS and Riviera to Mr. Becker in approximately the same aggregate principal amount. Rapid has paid $300,000 to Mr. Becker for the assignment to Rapid of his claim against Riviera for an outstanding $300,000 loan. In addition, Schenley has paid $9,000,000 to Mr. Becker upon termination of his employment with Schenley and his agreement not to engage in competition with Schenley for a period of years, and Rapid has entered into a three year consulting agreement with Mr. Becker providing for annual fees of $150,000.

14. In connection with the termination on January 31, 1978 of two shopping center leases by McCrory and Lerner in Springfield, Virginia, the lessor, a partnership in which Mr. Riklis is the principal partner, became indebted to McCrory for $308,903 and to Lerner for $110,347. As of March 15, 1983, these obligations were assumed by World Wide. As of January 31, 1984, the

indebtedness to McCrory and Lerner was $181,988 and $64,935, respectively, payable in 24 remaining quarterly payments, bearing interest at the rate of 6% per annum.

15. As of January 31, 1983, Rapid purchased approximately 149 acres of undeveloped land (the "Property") in the Towns of Manchester and South Windsor, Connecticut from Mr. Riklis, for a purchase price of $2,111,500 in excess of the existing mortgages on the Property of approximately $500,000. Rapid delivered to Mr. Riklis its promissory note in the principal amount of $2,111,500, payable on January 31, 1987, bearing interest at the rate of 6% per year payable quarterly, and secured by a purchase money mortgage on the Property which has been assigned to KGA. Rapid has the right to require Mr. Riklis to repurchase the Property on January 30, 1987, for a purchase price of $2,111,500, plus all principal and interest payments on the underlying mortgages, and all real estate taxes paid by Rapid prior to such date. See Note 10 to Financial Statements.

In connection with the foregoing transaction, Rapid has delivered a guarantee to a bank guaranteeing the difference between the interest due under a $2,111,500 note from Mr. Riklis to the bank (at 1/2% above prime) and 6% per annum. Any amounts advanced by Rapid under such guarantee would become demand obligations of Mr. Riklis', bearing interest at the rate per year of 110% of prime, payable annually.

16. In March 1984, View Top Corporation, a wholly-owned subsidiary of Rapid, acquired an aircraft for approximately $2,100,000. View Top leased the aircraft to a partnership in which Mr. Riklis' wholly-owned corporation is the principal partner. The partnership will pay rental to View Top of approximately $400,000 per year and pay all expenses of operating the aircraft. View Top has been advised that the aircraft will be used principally in connection with tours to the Hotel Riviera.

17. On February 3, 1982, Rapid sold its entire common stock interest in ILC (555,054 shares which represented approximately 74% of the outstanding shares) to Mr. Riklis (333,032 shares) and to Carl H. Lindner (222,022 shares) (see Item 12 - "Security Ownership of Certain Beneficial Owners and Management"). In payment for the shares of ILC common stock, Messrs. Riklis and Lindner delivered to Rapid their unsecured promissory notes in the aggregate principal amounts of $3,330,320 and $2,220,220, respectively, each payable on January 31, 1997, and bearing interest at the rate of 10% per year payable semi-annually. Mr. Riklis' obligation was assumed by KGA as of March 15, 1983. Under certain circumstances the maturity dates of the notes can be extended to August 1, 2006. Simultaneously Mr. Riklis sold, for $10 per share in cash, 330,000 shares of ILC common stock to Leonard C. Lane (Chairman of the Board of ILC) and 3,032 shares to ILC and Mr. Lindner sold, for $10 per share in cash, 101,750 shares of ILC common stock to Mr. Lane and 2,022 shares to ILC. During March 1982, as a result of a merger of ILC, pursuant to which the other stockholders of ILC received $10 per share in cash in exchange for their shares of ILC, 78-1/2% of the outstanding shares of ILC common stock became owned by Mr. Lane and the balance, 21-1/2% of ILC common stock became owned by Mr. Lindner. In addition, Mr. Riklis has the right through February 1987 to buy from Mr. Lane 118,250 shares of ILC common stock (currently representing 21-1/2% of the outstanding shares). In connection with the

merger, Rapid's intercompany receivable from ILC of approximately $7,450,000 was exchanged for approximately 74,500 shares of a newly created ILC redeemable preferred stock. For the accounting treatment afforded the foregoing transaction and the terms of the preferred stock reference is made to Note 3 to Financial Statements. Rapid has been advised that during March 1984, ILC loaned Mr. Riklis $1,000,000 evidenced by his unsecured, noninterest bearing demand note.

18. On February 3, 1982, pursuant to the terms of a loan agreement, Leonard C. Lane borrowed $6,250,000 from Rapid. The loan is due on August 1, 2006 and bears interest at the rate of 10% per year payable semi-annually. Mr. Lane has secured his obligations under the loan by pledging with Rapid $6,250,000 principal amount of 10% Debentures. If there is a default in the payment of interest or principal by Mr. Lane, Mr. Lane has the right to transfer such debentures to Rapid and thereafter Rapid will have no recourse against him for the interest or principal on the note. At any time after December 31, 1994, Rapid may in its sole and absolute discretion accept such debentures in whole or in part at their principal amount, including any accrued interest thereon, for sinking fund purposes in satisfaction of the principal amount of the loan.

19. During August 1983, Rapid sold the stock of its wholly-owned subsidiary Theatre Ventures, Inc. (50% partner in the ownership of the Palace Theatre located in New York City) to Mr. Lane for $1,375,000 (which approximated carrying value), of which $250,000 was paid on closing and the balance was paid in February 1984.

20. During February 1983, Daniel J. Manella borrowed $200,000 from Rapid. The loan is unsecured and is evidenced by Mr. Manella's noninterest bearing promissory note due on January 31, 1989. In addition, during October 1982, Mr. Manella borrowed $1,000,000 from Rapid. The loan is unsecured and is evidenced by Mr. Manella's noninterest bearing note due on January 31, 1989.

21. During September 1983, Harold S. Divine borrowed $1,000,000 from Rapid. The loan is unsecured and evidenced by Mr. Divine's noninterest bearing demand note. Rapid has been advised that the proceeds of the loan were used in partial payment for shares of exchangeable preferred stock of Riklis Family Corporation. See Item 12 - "Security Ownership of Certain Beneficial Owners and Management". See Note 10 to Financial Statements.

22. During December 1981, pursuant to the terms of a loan agreement, Arie Genger borrowed $1,200,000 from McCrory. The loan is evidenced by Mr. Genger's promissory note due on May 15, 1994, and bearing interest at the rate of 7% per year payable semi-annually. Mr. Genger has the right at any time prior to January 1, 1985 to secure the note by pledging with McCrory an aggregate of $1,200,000 principal amount of (i) publicly trading debt obligations of McCrory or Rapid having maturity dates on or before May 15, 1994, (ii) fixed dollar obligations of the United States of America having maturity dates on or before May 15, 1994, or (iii) debt obligations listed on the New York Stock Exchange having maturity dates on or before May 15, 1994 and which are rated at least "A" by Moody's Investors Service (the "Collateral"). If after the Collateral is pledged there is a default in the payment of interest or principal by Mr. Genger, Mr. Genger has the right to transfer the Collateral to McCrory and thereafter McCrory will have no

recourse against him for the interest or principal on the note.

23. During October 1981, pursuant to the terms of a loan agreement, Bernard J. Blaney borrowed $600,000 from McCrory. The loan is evidenced by Mr. Blaney's promissory note, due on August 1, 2006, bearing interest at the rate of 10% per year payable semi-annually. Mr. Blaney has secured the note by pledging with McCrory $600,000 principal amount of 10% Debentures. If there is a default in the payment of interest or principal by Mr. Blaney, Mr. Blaney has the right to transfer such debentures to McCrory and thereafter McCrory will have no recourse against him for the interest or principal on the note.

24. On March 1, 1979, Kenton entered into agreements with Messrs. Harold S. Divine and Daniel J. Manella, pursuant to which Kenton issued to each such person 25,000 shares of Kenton common stock, for a purchase price of $14.25 per share. Each of them paid $250 in cash for his shares and delivered to Kenton a promissory note for the balance of the purchase price, which note was initially payable June 30, 1980 and bore interest at a rate of 6% per annum. As security for the notes, each of such persons assigned the proceeds of life insurance policies in an amount equal to at least the lesser of the unpaid balance of his note or $250,000. As an incentive for such persons to continue serving as executive officers of Kenton, Kenton agreed that if the earnings of Kenton in future years attained certain specified levels Kenton would defer the payment dates under the notes, forgive all or a portion of such payments, grant bonuses in the amount of the principal forgiven, or permit payment of the notes by the delivery to Kenton of the shares issued. As a result of Kenton's earnings during fiscal 1979, $70,000 of indebtedness under each note was forgiven, Messrs. Divine and Manella each became entitled to a cash bonus of $70,000 (which was paid), and the payment date of principal and interest of each note was deferred. At January 31, 1983, Messrs. Divine and Manella were each indebted to Rapid in the principal amount of $286,000. During 1983 the notes were forgiven and during January 1984 each became entitled to a cash bonus in the amount of $286,000 (paid in March 1984).

25. Lerner entered into a sale and leaseback transaction for its New Jersey distribution center (see Item 1 - "Business - Retail Merchandising - Apparel Specialty Stores"), with, among others, Messrs. Divine, Levin, Manella, and Blaney. The sales price of the property approximated Lerner's carrying value for the property. In the opinion of management the rental terms are comparable to those which Lerner would obtain for similar space in the general area.

26. During the year ended January 31, 1984, Rapid paid AFC investment advisory fees of $1,150,000.

27. In July 1976, Mona R. Ackerman, Marcia Riklis, and Ira D. Riklis acquired substantially all of the beneficial interest in a shopping mall located in Phoenix, Arizona. As of January 1, 1983, such interest was transferred to a wholly-owned subsidiary of KGA. The mall, which contains approximately 595,000 square feet of floor space, includes a McCrory variety store occupying approximately 31,400 square feet of floor space with a minimum annual rental of $44,000, and a Lerner store occupying approximately 9,400 square feet of floor space with a minimum annual rental of $21,232. The leases were each entered into during 1963, expire in 1988 and contain one five year

renewal option. The respective leases provide that McCrory and Lerner pay a proportionate share of taxes and operating expenses. In addition, the McCrory and Lerner leases provide for additional payments of 4% of gross sales (as defined), less the minimum annual rent, taxes and operating expenses. On August 26, 1983, KGA's subsidiary sold its interest in the Phoenix shopping mall to an unrelated party. During the period from February 1, 1983 to August 26, 1983, McCrory's aggregate rental payment was approximately $36,000 and Lerner's aggregate rental payment was approximately $13,000. Such rentals constituted less than 5% of the gross rental income of the shopping mall for such period. These leases were in the opinion of the respective managements of McCrory and Lerner on terms comparable to those prevailing generally for similar space in the area.

28. Effective April 1, 1981, Whimsy, Incorporated ("Whimsy"), a subsidiary of McCrory, assigned leases on five of its retail stores, which had previously been closed, to Specialty Store Group, Inc. ("Specialty"), a corporation whose principal stockholder and Chief Executive Officer is Ira D. Riklis. In addition, Whimsy granted an exclusive license to Specialty to use Whimsy's trademarks and trade names and leased to Specialty the equipment located in the five Whimsy stores and certain other equipment used in the Whimsy operation. In consideration therefor, Specialty agreed to pay to Whimsy a fee of 8% of its gross sales (as defined) from the five Whimsy stores, 4% of gross sales from any other stores hereafter operated by Specialty under the Whimsy name, together with 4% of the gross sales of any products sold under the Whimsy name at other locations. Specialty paid a fee to McCrory for the period from April 1, 1982 through March 31, 1983 (Specialty's fiscal year) in the amount of $13,000. In connection with such transaction, Rapid loaned Specialty $500,000 which is payable in five annual instalments commencing March 31, 1982 of $25,000 (paid), $50,000 (paid), $75,000 (paid), $100,000, and $250,000, respectively, bearing interest at the prime rate payable quarterly. McCrory has been advised that by November 1982, Specialty closed all of the Whimsy locations. See Note 10 to Financial Statements.

29. As of January 31, 1983, a wholly-owned subsidiary of McCrory sold its lease and leasehold estate located on Central Avenue, Yonkers, New York, which consists of a shopping center, to a New York Limited Partnership (the "New York Partnership"). The limited partners, consisting of Mona R. Ackerman, Marcia Riklis, Ira D. Riklis and AFC (or designees of the foregoing), have a 90% interest in the profits and losses of the New York Partnership. The sales price for the property was $6,100,000 which was evidenced by a promissory note payable in quarterly instalments over a 15 year period, with interest at 10% per annum, and collateralized by an assignment of the income, profits, and distributions of the New York Partnership. See Note 9 to Financial Statements.

30. As of January 31, 1983, a wholly-owned subsidiary of Rapid sold its lease and leasehold estate located in Richmond, Virginia, which consisted of a manufacturing plant and warehouse, to a Virginia Limited Partnership (the "Virginia Partnership"). The limited partners, consisting of Mona R. Ackerman, Marcia Riklis, Ira D. Riklis, and AFC (or designees of the foregoing), have a 90% interest in the profits and losses of the Virginia Partnership. The sales price for the property was $2,600,000, of which

$1,180,000 was evidenced by a promissory note payable in quarterly instalments over a 15 year period commencing in 1989, with interest at 10% per annum, payable quarterly and collateralized by an assignment of the income, profits, and distributions of the Virginia Partnership, and the balance by the assumption of the payments due under a mortgage on the property, in the aggregate principal amount of $1,420,000, which is due in annual instalments from December 1983 through December 1987. The mortgage bears interest at the rate per year of 6-1/4%, payable semi-annually. Following consummation of the foregoing transaction, Rapid's subsidiary continued to be liable under the mortgage. See Note 9 to Financial Statements.

31. A corporation of which Abraham G. Levin is the Chief Executive Officer entered into a consulting contract with Rapid effective February 1, 1981 through January 31, 1985 for services relating to non-legal matters. The contract provides for an annual consulting fee of $300,000 (all four instalments have been paid).

32. During the year ended January 31, 1984, Rapid and its subsidiaries paid to Messrs. Rubin Baum Levin Constant & Friedman, general counsel to Rapid, of which Abraham G. Levin is the senior partner, approximately $3,600,000 for services rendered.

33. Marcia Riklis' husband, through his wholly-owned entity, has a 42-1/2% interest in a partnership which acquired from Rapid the purchase option for the former S. Klein property on 14th Street in New York City. See Item 2 - "Properties".

34. During March and April of 1984, McCrory acquired in the open market shares of preferred stock of AFC at an aggregate cost of approximately $1,100,000. In addition, McCrory intends to acquire directly from AFC and certain of its affiliates shares of their preferred stock at an aggregate cost of approximately $30,000,000.

35. During November 1982, Ben Litwak borrowed $300,000 from McCrory, which is evidenced by a noninterest bearing promissory note payable at the earlier of January 31, 1987, or the termination of Mr. Litwak's employment for any reason.

36. McCrory leases certain properties from wholly-owned corporations of the McCrory Stores Pension Plan. Pursuant to such leases, during the year ended January 31, 1984, rentals of approximately $540,000 were paid.

37. During the year ended January 31, 1984, Lerner paid to the Lerner's Employees Retirement Trust rentals of approximately $13,000, covering two locations leased by Lerner. Lerner at its option may purchase, or at the option of said Trust may be required to purchase, these premises for a total of approximately $220,000. Of this amount, approximately $120,000 applies to a location previously sold to said Trust by Lerner at the same price.

38. During the year ended January 31, 1984, Otasco paid to the Otasco Employees Retirement Trust rentals of approximately $335,000 covering locations leased by Otasco from such Trust.

In the opinion of management, the terms of the leases referred to in paragraphs 36, 37 and 38 are comparable to those prevailing generally for similar space in the areas in which such properties are located.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.

(a) See Index to Financial Statements and Schedules on Page F-1.

(b) No reports on Form 8-K were filed during the last quarter of the fiscal year ended January 31, 1984.

(c) See Index to Exhibits on Page E-1.

(d) None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

RAPID-AMERICAN CORPORATION
(Registrant)

By /S/ B. J. BLANEY
Bernard J. Blaney
Vice President and Treasurer

Dated: April 27, 1984

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated:

Principal Executive Officer:
Meshulam Riklis
Chairman of the Board

Principal Financial and Accounting Officer:
Bernard J. Blaney
Vice President and Treasurer

Directors:
Mona R. Ackerman
Harold S. Divine
Arie Genger
Seymour Kleinman
Leonard C. Lane
Abraham G. Levin
Carl H. Lindner
Carl H. Lindner, III
S. Craig Lindner
Robert C. Lintz
Daniel J. Manella
Dan Palmon
Ira D. Riklis
Marcia Riklis
Meshulam Riklis
Leo D. Stone
Helen H. Updike

By /S/ STUART H. AARONS
Stuart H. Aarons
Attorney-in-fact

Dated: April 27, 1984

Original powers of attorney authorizing Bernard J. Blaney and Stuart H. Aarons, and each of them, to sign this report and any amendments hereto on behalf of the directors and officers of the Registrant are being filed with the Securities and Exchange Commission with this report.

INDEX TO FINANCIAL STATEMENTS AND SCHEDULES

Schedules

Schedules Omitted

Schedules, other than those listed above, are omitted because of the absence of the conditions under which they are required, or because the information required therein is set forth in the financial statements or the notes thereto.

Deloitte
Haskins+Sells

One World Trade Center
New York, New York 10048
(212) 669-5000
International Telex 66272

To the Board of Directors of
Rapid-American Corporation:

We have examined the consolidated financial statements and supplemental schedules of Rapid-American Corporation and its consolidated subsidiaries, listed in the accompanying index. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of a consolidated subsidiary, which statements reflect revenues constituting 28%, 26% and 27%, respectively, of consolidated revenues for the years ended January 31, 1984, 1983 and 1982. Such financial statements were examined by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for such consolidated subsidiary, is based solely upon the report of the other auditors.

As discussed in Note 13 to the financial statements, substantial damages are being sought against Rapid-American Corporation and certain of its subsidiaries in various actions and claims. The ultimate outcome of such actions and claims cannot presently be determined, and no provision for any liability that may result has been made in the financial statements.

In our opinion, subject to the effects on the consolidated financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainties referred to in the preceding paragraph been known, and based upon our examinations and the report of other auditors, the accompanying consolidated financial statements present fairly the financial position of the companies at January 31, 1984 and 1983 and the results of their operations and the changes in their financial position for each of the three years in the period ended January 31, 1984, in conformity with generally accepted accounting principles applied on a consistent basis. Also, in our opinion, the supplemental schedules, when considered in relation to the basic consolidated financial statements, present fairly in all material respects the information shown therein.

DELOITTE HASKINS & SELLS
April 9, 1984

OPINION OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

April 9, 1984

Board of Directors
Lerner Stores Corporation
New York, New York

We have examined the consolidated balance sheets of Lerner Stores Corporation and subsidiaries as of January 31, 1984 and 1983 and the related statements of income, stockholder's equity and changes in financial position for each of the years in the three year period ended January 31, 1984 (none of which is presented separately herein). Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of Lerner Stores Corporation and subsidiaries as of January 31, 1984 and 1983 and the consolidated results of their operations and changes in their financial position for each of the years in the three year period ended January 31, 1984, in conformity with generally accepted accounting principles applied on a consistent basis.

TOUCHE ROSS & CO.

Certified Public Accountants

GATEWAY I - NEWARK, NEW JERSEY 07102 - (201) 622-7100

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS	January 31, 1984	January 31, 1983
	(In Thousands)	
CURRENT ASSETS:		
Cash	$ 37,784	$ 41,895
Temporary investments, at cost which approximates market	66,120	178,462
Trade receivables, less allowances ($3,126,000 and $4,010,000)	97,890	122,654
Inventories	512,060	450,913
Other receivables, prepaid expenses, etc.	49,112	55,177
Net assets held for sale to stockholders and affiliates	-	13,500
Total current assets	762,966	862,601
INVESTMENTS AND ADVANCES:		
Marketable securities, at cost which approximates market	40,238	3,375
Otasco Credit Corporation, at equity	21,190	20,872
Other investments	30,778	21,916
Total investments and advances	92,206	46,163
PROPERTY, PLANT AND EQUIPMENT - AT COST	552,566	531,872
Less accumulated depreciation and amortization	230,958	223,460
	321,608	308,412
Capital leases, less accumulated amortization	31,614	35,972
Property, plant and equipment - net	353,222	344,384
OTHER ASSETS:		
Excess of cost of investments over related equities, less accumulated amortization ($44,125,000 and $39,833,000)	234,159	238,543
Franchises, less accumulated amortization ($4,511,000 and $4,112,000)	45,490	45,888
Trademarks	2,780	2,809
Deferred charges, mortgages and sundry	61,750	50,063
Due from stockholders and affiliates ($52,375,000 and $38,877,000) - see contra.	-	-
Total other assets	344,179	337,303
TOTAL	$1,552,573	$1,590,451

See Notes to Financial Statements.

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' EQUITY	January 31, 1984	January 31, 1983
	(In Thousands)	
CURRENT LIABILITIES:		
Accounts payable	$ 169,227	$ 149,857
Accrued expenses and sundry	162,120	156,559
Accrued Federal and foreign income taxes	57,362	42,231
Short-term debt	46,326	63,605
Current maturities of long-term debt	20,175	86,057
Capital lease obligations	5,969	6,067
Due to stockholders and affiliates	-	21,927
Total current liabilities	461,179	526,303
LONG-TERM DEBT, LESS CURRENT MATURITIES AND UNAMORTIZED DISCOUNT	720,823	779,417
OTHER NONCURRENT LIABILITIES:		
Deferred income taxes	129,684	110,702
Capital lease obligations	45,284	51,554
Reserves for store closings	6,354	8,118
Sundry	47,001	38,760
Total other noncurrent liabilities	228,323	209,134
MINORITY INTEREST IN SUBSIDIARIES	45,485	15,248
STOCKHOLDERS' EQUITY:		
Common stock, $.01 par value, authorized and outstanding 2,435,607 shares	24	24
Additional paid-in capital	57,774	57,906
Retained earnings	95,109	41,296
Foreign currency translation adjustment	(3,769)	-
Due from stockholders and affiliates - see contra	(52,375)	(38,877)
Stockholders' equity	96,763	60,349
TOTAL	$1,552,573	$1,590,451

See Notes to Financial Statements.

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED INCOME

	Year Ended January 31, 1984	1983	1982
	(In Thousands)		
REVENUES:			
Net sales	$2,444,733	$2,570,679	$2,645,914
Non-taxable gain on public sale by McGregor Corporation of its common stock	7,912	-	-
Other - net	39,559	44,736	29,758
	2,492,204	2,615,415	2,675,672
COSTS AND EXPENSES:			
Cost of goods sold	1,678,618	1,808,710	1,872,308
Selling, general and administrative expenses	548,249	553,751	568,562
Interest and debt expense	132,434	155,659	161,258
Depreciation and amortization	37,804	35,752	33,901
Minority interest	1,164	-	-
Nonrecurring item - principally foreign exchange loss on sale of Canadian alcoholic beverage operations	-	-	6,337
	2,398,269	2,553,872	2,642,366
INCOME BEFORE PROVISION FOR INCOME TAXES AND EXTRAORDINARY CREDIT	93,935	61,543	33,306
PROVISION FOR INCOME TAXES (Including, in 1982, a nonrecurring provision of $9,748,000 related to sale of Canadian alcoholic beverage operations)	40,451	28,878	26,351
INCOME BEFORE EXTRAORDINARY CREDIT	53,484	32,665	6,955
EXTRAORDINARY CREDIT - GAIN ON DEBENTURE EXCHANGES - NET OF TAX	2,960	13,834	-
NET INCOME	56,444	46,499	6,955
CONSOLIDATED PREFERRED DIVIDEND REQUIREMENTS	814	926	1,999
NET INCOME APPLICABLE TO COMMON STOCKHOLDERS	$ 55,630	$ 45,573	$ 4,956

See Notes to Financial Statements.

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

STATEMENTS OF STOCKHOLDERS' EQUITY

	Preferred Stock	Common Stock	Additional Paid-In Capital (In Thousands)	Retained Earnings	Foreign Currency Translation Adjustment	Due from Stockholders and Affiliates
Balance, February 1, 1981	$ 1	$ 24	$ 71,502	$ 3,416		
Net income				6,955		
Cash dividends declared on:						
Preferred stock ($10.00 per share)				(1,179)		
Common stock ($1.00 per share)				(2,436)		
Rapid-Kenton merger and warrant exchange offer adjustments ...			(1,499)	(2,125)		
Cancellation of debenture purchase warrants			(100)			
Cash dividends paid by subsidiaries				(1,734)		
Due from stockholders and affiliates, principally from sale of ILC Industries, Inc. .						$ (5,863)
Balance, January 31, 1982	1	24	69,903	2,897		(5,863)
Net income				46,499		
Cash dividends declared on:						
Preferred stock ($.92 per share)				(108)		
Common stock ($1.60 per share)				(3,897)		
Redemption of preferred stock ..	(1)		(11,786)			
Reduction of carrying value of net assets held for sale to stockholders and affiliates				(3,284)		
Exercise of debenture purchase warrants			(211)			
Cash dividends paid by subsidiaries				(811)		
Increase in amount due from stockholders and affiliates ..						(33,014)
Balance, January 31, 1983	-	24	57,906	41,296		(38,877)
Cumulative adjustment as of February 1, 1983 resulting from change in translation method					$(3,167)	
Net income				56,444		
Cash dividends declared on common stock ($.75 per share).				(1,827)		
Exercise of debenture purchase warrants			(131)			
Cash dividends paid by subsidiaries				(814)		
Increase in amount due from stockholders and affiliates ..						(13,498)
Foreign currency translation adjustment					(602)	
Other			(1)	10		
Balance, January 31, 1984	-	$ 24	$ 57,774	$ 95,109	$(3,769)	$(52,375)

See Notes to Financial Statements.

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

STATEMENTS OF CHANGES IN CONSOLIDATED FINANCIAL POSITION

	Year Ended January 31, 1984	1983	1982
		(In Thousands)	
FUNDS PROVIDED:			
Operations:			
Income before extraordinary credit	$ 53,484	$ 32,665	$ 6,955
Nonrecurring item, principally foreign exchange loss on sale of Canadian alcoholic beverage operations			6,337
Items not currently requiring funds:			
Depreciation and amortization (including debt discount and intangibles)	48,989	48,679	45,886
Non-taxable gain on public sale by McGregor Corporation of its common stock	(7,912)		
Deferred Federal and foreign income taxes	12,476	7,456	15,469
Minority interest	1,164		
Other - net	10,048	6,119	7,053
Funds provided by operations	118,249	94,919	81,700
Extraordinary credit:			
Gain on debenture exchanges	2,960	13,834	
Deferred income taxes	2,521	11,784	
Decrease in long-term debt	(5,481)	(25,618)	
Net proceeds from public sale by McGregor Corporation of its common stock	37,048		
Decrease in deferred charges, mortgages and sundry	11,905	4,677	1,045
Disposals of property, plant and equipment	10,787	17,072	12,098
Increase in long-term debt	9,273	16,849	109,637
Sale of marketable securities and other investments	6,877	67	10
Working capital of companies to be sold (1983) or acquired (1982)		6,308	2,056
Other - net	7,543	2,686	3,569
	201,682	142,578	210,115
FUNDS APPLIED:			
Decrease in long-term debt	68,374	99,153	90,978
Additions to property, plant and equipment	57,552	64,892	82,893
Purchase of marketable securities	41,481	500	1,255
Increase in deferred charges, mortgages and sundry	24,054	23,929	1,422
Purchase of other investments	14,600	4,034	1,200
Due from stockholders and affiliates	13,498	33,014	5,863
Decrease in capital lease obligations.	6,270	13,736	10,386
Foreign currency translation adjustment	3,769		
Decrease in noncurrent reserves for store closings	3,349	4,617	3,909
Cash dividends	1,827	4,005	3,615
Cash dividends paid by subsidiaries	814	811	1,734
Redemption of preferred stock		11,787	
Acquisition of subsidiary			6,496
Loans to certain directors and officers - net	605	3,291	4,090
Advances to Otasco Credit Corporation.			3,000
Acquisition of common, preference and preferred stocks and warrants			3,624
	236,193	263,769	220,465
DECREASE IN WORKING CAPITAL	$ (34,511)	$(121,191)	$ (10,350)

See Notes to Financial Statements.

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

STATEMENTS OF CHANGES IN CONSOLIDATED FINANCIAL POSITION-(Concluded)

	Year Ended January 31, 1984	1983	1982
	(In Thousands)		
INCREASE (DECREASE) IN WORKING CAPITAL BY COMPONENTS:			
Cash	$ (4,111)	$ 22,423	$ (10,035)
Temporary investments	(112,342)	37,727	83,503
Trade receivables, less allowances	(24,764)	(3,226)	(52,393)
Inventories	61,147	(73,110)	(53,155)
Other receivables, prepaid expenses, etc.	(6,065)	7,046	6,857
Net assets held for sale to stockholders and affiliates	(13,500)	13,500	-
Accounts payable	(19,370)	10,670	2,109
Accrued expenses and sundry	(5,561)	3,638	22,258
Accrued Federal and foreign income taxes	(15,131)	(6,752)	4,789
Short-term debt	17,279	(57,755)	(4,000)
Current maturities of long-term debt	65,882	(54,722)	(11,139)
Capital lease obligations	98	1,297	856
Due to stockholders and affiliates	21,927	(21,927)	-
DECREASE IN WORKING CAPITAL	$ (34,511)	$(121,191)	$ (10,350)

See Notes to Financial Statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include (i) Rapid; (ii) McCrory Corporation and subsidiaries, including Lerner Stores Corporation and subsidiaries, Otasco, Inc. and subsidiaries, J. J. Newberry Co. and subsidiaries and all other subsidiaries, exclusive of Otasco Credit Corporation, a nonsignificant financing subsidiary (see Note 3), which is carried at equity; (iii) Schenley Industries, Inc. and subsidiaries; (iv) McGregor Corporation (53.8% owned by Rapid, see Note 2); (v) Shenandoah Corporation (substantially all of whose assets were sold during 1983, see Note 17); and (vi) certain other subsidiaries whose assets and operations in the aggregate are not significant.

Minority interest in consolidated subsidiaries consisted of the following:

	January 31, 1984	January 31, 1983
	(In Thousands)	
Preferred and preference stocks	$15,185	$15,248
Common stock	23	-
Additional paid-in capital	27,465	-
Retained earnings	2,812	-
Total	$45,485	$15,248

To facilitate comparisons with the current year, certain amounts in prior years have been reclassified.

INVENTORIES

The last-in, first-out ("LIFO") method is used to value substantially all inventories. The LIFO inventory amount at January 31, 1984, 1983 and 1982 was less than the first-in, first-out ("FIFO") inventory amount by approximately $100,300,000, $105,000,000 and $103,000,000, respectively. As a result of reduced inventories and lower merchandise costs for the year ended January 31, 1984, the difference between LIFO and FIFO was reduced by $5,000,000, accordingly net income benefited by approximately $2,600,000.

Whiskey, other spirits and wine inventories in bond, classified as current assets in accordance with the general practice of the industry, include inventories, which, in the normal course of business, will remain in storage to be aged for periods exceeding one year. It is not possible to state the amount of inventory which will be realized within one year. The inventories in bond are subject to payment of excise taxes upon removal from government controlled premises.

Net sales and cost of goods sold include Federal excise taxes, import duties and state liquor taxes of approximately $105,100,000, $169,600,000 and $188,800,000, respectively, for the years ended January 31, 1984, 1983 and 1982.

PROPERTY, PLANT AND EQUIPMENT

Depreciation is provided at rates designed to extinguish the cost of properties over their estimated service lives. The approximate annual rates of depreciation and amortization, which have been computed generally using the straight-line method, are as follows:

	Rates of Depreciation and Amortization
Buildings, etc.	2 to 20%
Furniture, fixtures and automobiles	2-1/2 to 33-1/3%
Machinery and equipment	4 to 50%
Property and equipment under capital leases	Term of lease
Leasehold improvements	Term of lease or estimated service life of improvement, whichever is less

EXCESS OF COST OF INVESTMENTS OVER RELATED EQUITIES AND FRANCHISES

The excess of cost of investments over related equities which arose from acquisitions prior to October 31, 1970, amounting to $112,638,000 and $112,730,000 at January 31, 1984 and 1983, respectively, has been recognized as being similar in nature to intangibles, which have not declined in value since acquisition. These excess costs have not been amortized or written down as, in the opinion of management, there has not been any permanent impairment in the value of the related investments (see Note 5). Franchises, which consist of Schenley contracts to import whiskies, liquors, and other distilled spirits, have continuing value and are not being amortized, except for the portion acquired subsequent to October 31, 1970.

The excess of cost of investments over related equities which arose from acquisitions subsequent to October 31, 1970, amounting to $121,521,000 (after accumulated amortization of $44,125,000) at January 31, 1984 and $125,813,000 (after accumulated amortization of $39,833,000) at January 31, 1983 and the portion of franchises, amounting to $11,434,000 (after accumulated amortization of $4,511,000) at January 31, 1984 and $11,833,000 (after accumulated amortization of $4,112,000) at January 31, 1983, acquired subsequent to October 31, 1970 are being amortized using the straight-line method over forty years (see Note 5). These excess costs and franchises have not been otherwise written down, as, in the opinion of management, there has not been any permanent impairment in the value of the related investments.

FOREIGN CURRENCY TRANSLATION

Effective as of February 1, 1983, Rapid changed its method of translating financial statements of investments stated in foreign currencies to conform with Statement No. 52 of the Financial Accounting Standards Board. An equity adjustment of $3,167,000 was recorded as of February 1, 1983 for the cumulative effect of Statement No. 52 on prior years. The effect on results of operations for the years ended January 31, 1983 and 1982 was not material and such financial statements have not been restated.

2. PUBLIC SALE BY McGREGOR CORPORATION OF ITS COMMON STOCK

Effective October 27, 1983, McGregor, which until then had been a wholly-owned subsidiary of Rapid, publicly sold 2,250,000 shares of its common stock and received approximately $37,000,000 in net proceeds. McGregor paid Rapid $30,000,000 of such net proceeds to satisfy its obligation arising from the redemption during August 1983 of its preferred stock owned by Rapid. In addition during August 1983, McGregor declared a dividend of $10,000,000 initially payable to Rapid on February 15, 1984, payment of which has been deferred until February 15, 1985. Rapid recorded a non-taxable gain of $7,912,000 as a result of McGregor's sale of its common stock.

3. INVESTMENTS AND ADVANCES

MARKETABLE SECURITIES

At January 31, 1984, marketable securities consisted primarily of an investment in shares of common stock of F. W. Woolworth Co.

OTASCO CREDIT CORPORATION

Otasco, Inc. has a financing agreement with Otasco Credit Corporation under which Otasco, Inc. sells substantially all of its customers' accounts receivable to Otasco Credit Corporation. Otasco, Inc. receives 90% of the amount of accounts receivable sold and repurchases accounts receivable in default, as defined. Otasco, Inc.'s 10% equity in accounts receivable sold is included in trade receivables in the consolidated balance sheets.

Otasco Credit Corporation has an agreement with a regional bank group for a revolving credit line in the aggregate principal amount of $75,000,000, expiring on July 31, 1984 and secured by all of the customers' accounts receivable purchased by Otasco Credit Corporation together with substantially all of Otasco, Inc.'s customers' accounts receivable. The agreement provides, among other things, for interest at the prime rate and maintenance of compensating balances equal to 7-1/2% of the borrowings. At January 31, 1984, 1983 and 1982 the prime interest rates were 11.0%, 11.0%, and 16.25%, respectively. The agreement also provides that Otasco Credit maintain a minimum level of net worth (including subordinated notes), a ratio of debt to equity and a ratio of net operating income to fixed charges (as each term is defined). Otasco, Inc., among other things, is required to maintain a minimum level of net worth and a current ratio (as each term is defined). The average

amount of notes payable to banks outstanding during the years ended January 31, 1984, 1983 and 1982 was approximately $64,400,000, $58,400,000 and $57,800,000, respectively, and the weighted average interest rates were approximately 10.9%, 15.0% and 19.1%, respectively.

The condensed balance sheets of Otasco Credit Corporation at January 31, 1984 and 1983 were as follows:

	January 31, 1984	January 31, 1983
	(In Thousands)	
Assets:		
Customers' accounts receivable purchased from Otasco, Inc. net of 10% withheld pending collection ($10,189,000 and $8,646,000)	$91,697	$77,814
Cash	5,634	6,209
Total assets	97,331	84,023
Liabilities:		
Notes payable to banks	75,000	62,000
Accrued interest and sundry	865	797
Payable to Otasco, Inc.	276	354
Total liabilities	76,141	63,151
Rapid's carrying value (including subordinated note payable to McCrory of $18,000,000)	$21,190	$20,872

Net income of Otasco Credit Corporation was $318,000, $404,000 and $504,000, respectively, for the years ended January 31, 1984, 1983 and 1982 and is included in consolidated net income.

OTHER INVESTMENTS

Other investments includes preferred stock of ILC (see below), investments and advances in nonconsolidated subsidiaries carried at equity, and, in addition, at January 31, 1984, common stock of Faberge, Incorporated (see Note 23).

ILC Industries, Inc. - On February 3, 1982, reflected in the financial statements as of January 31, 1982, Rapid sold its common stock investment in ILC to Meshulam Riklis and Carl H. Lindner in exchange for $5,550,540 in notes. The principal amount of the notes has been included in due from stockholders and affiliates. Subsequently, in exchange for indebtedness due from ILC, Rapid obtained approximately 74,500 shares of ILC preferred stock having a liquidation and redemption value of $100 per share, which provides for quarterly noncumulative dividends at the annual rate of $6.00 per share; restricts dividends on ILC's common stock to an amount equal to the amount paid on the preferred stock, requires redemption of the preferred stock in an amount equal to 30% of the earnings before Federal income taxes (as defined) of ILC in excess of $3,500,000; and redemption of all preferred stock under certain other conditions. During the years ended January 31, 1984 and 1983, no shares of ILC preferred stock were redeemed and no dividends were paid.

4. INVENTORIES

Inventories at the lower of cost or market consisted of the following:

	January 31, 1984	January 31, 1983
	(In Thousands)	
At LIFO cost - whiskey, other spirits and wine:		
In bond	$126,428	$142,874
Tax paid	7,694	7,367
At cost - whiskey, other spirits and wine in bond.	10,344	11,583
Principally LIFO:		
Merchandise at stores and warehouses	299,618	247,582
Raw materials and supplies	2,812	3,764
Principally FIFO and average cost:		
Merchandise at plants and warehouses	41,913	20,068
Work in process	9,844	7,120
Raw materials and supplies	13,407	10,555
Total	$512,060	$450,913

5. INTANGIBLES

The aggregate cost of investments exceeded equity in underlying net assets acquired at dates of acquisition as follows:

	January 31, 1984	January 31, 1983
	(In Thousands)	
Schenley, etc	$174,614	$174,614
Lerner	65,526	65,526
McCrory	19,283	19,375
McGregor	17,862	17,862
Other	999	999
Total*	278,284	278,376
Less accumulated amortization	44,125	39,833
Net	$234,159	$238,543

* Includes $165,646,000 at January 31, 1984 and 1983, which is being amortized over forty years (see Note 1).

Rapid's equity in the net income of Schenley was $33,131,000, $35,557,000 and $9,649,000 (after nonrecurring loss of $16,085,000), respectively, for the years ended January 31, 1984, 1983 and 1982. The net assets of Schenley at January 31, 1984 and 1983 were $383,738,000 and $377,533,000, respectively.

6. INDEBTEDNESS AND WARRANTS

Short-Term

Short-term borrowings for the three years ended January 31, 1984 were as follows:

	Year-End		During the Year		
			Maximum	Average (*)	
	Amount Outstanding	Interest Rate	Amount Outstanding	Amount Outstanding	Interest Rate
	(In Thousands, Except Percentages)				
January 31, 1984:					
Credit lines and commercial paper..	$ 1,000	11.0%	$ 84,300	$ 20,400	11.9%
Trade acceptances ..	45,326	10.4	49,000	34,500	10.3
Total	$46,326		$133,300	$ 54,900	
January 31, 1983:					
Credit lines and commercial paper..	$44,250	10.7	$132,400	$ 89,100	14.1
Trade acceptances ..	19,355	10.1	30,500	20,100	13.8
Total	$63,605		$162,900	$109,200	
January 31, 1982:					
Credit lines and commercial paper..	$ 5,850	17.6	$ 92,600	$ 49,800	19.3
Trade acceptances ..	-		30,400	11,700	18.1
Total	$ 5,850		$123,000	$ 61,500	

(*) Average borrowings were calculated using the average month-end borrowings outstanding and the average interest rates were calculated by dividing the interest expense for such borrowings by the average month-end borrowings outstanding.

Lines of credit which were available to McCrory, pursuant to a credit agreement for short-term bank borrowings and the issuance of commercial paper aggregated $100,000,000 at January 31, 1984. Interest was payable on the borrowings from the banks at prime. McCrory, under its compensating balance arrangement, was generally expected to maintain cash balances of 5% of the line of credit and 5% of the loans outstanding. Such requirements were satisfied by maintenance of the required balances and the payment of fees. On March 15, 1984, McCrory terminated its credit agreement and the lines were cancelled. McCrory, Lerner and Schenley are each discussing with banks the establishment of seasonal lines of credit.

The average cash book balances with various banks having a credit relationship with Rapid and its consolidated subsidiaries was approximately $9,000,000 during the year ended January 31, 1984. The aforementioned balance was subject to withdrawal at any time.

Long-Term

Details of consolidated long-term debt, including current maturities, at January 31, 1984 and 1983 were as follows:

Description	Amount Outstanding		Effective Interest Rate	
	January 31,			
	1984	1983	1984	1983
	(In Thousands)			
Notes payable to banks:				
McGregor	$ 2,250	$ 3,250	11.0%	11.0%
McCrory	-	55,000	-	11.5
Notes due to insurance companies:				
Schenley 10% notes due to 1986	30,000	96,600	10.0	10.0
Subordinated indebtedness:				
7-1/2% SF debentures due to 1985 ..	18,121	18,893	9.4	9.4
10-1/2% SF debentures due to 1985*.	5,317	5,873	11.3	11.3
6% SF debentures due 1988	55,695	102,114	8.0	8.0
6-1/2% convertible debentures due 1992*	3,379	3,379	6.9	6.9
7% debentures due 1994 (1969 issue)	51,766	51,766	9.3	9.3
7% debentures due 1994 (1972 issue)	66,277	66,277	9.9	9.9
7-1/2% SF debentures due to 1994*..	15,914	22,750	9.5	9.5
6-1/2% convertible debentures due 1994*	738	967	6.5	6.5
7-3/4% SF debentures due to 1995*..	15,329	15,351	12.1	12.1
7-5/8% SF debentures due to 1997*..	12,204	12,204	9.8	9.8
12% SF debentures due to 1999	15,912	16,684	12.9	12.9
10-3/4% SF debentures due to 2003..	153,141	153,141	13.7	13.7
10-3/4% SF debentures due to 2004..	5,870	5,870	13.7	13.7
11% SF debentures due to 2005	15,510	15,510	14.0	14.0
10% SF debentures due to 2006	294,018	293,026	20.7	20.7
15% SF debentures due to 2008	13,392	13,392	16.8	16.8
9-1/2% SF debentures due to 2008*..	39,566	32,731	15.1	15.1
9-5/8% SF debentures due to 2008*..	43,491	43,491	15.5	15.5
9-3/4% SF debentures due to 2008*..	47,114	47,093	15.7	15.7
11-3/4% SF debentures due to 2009..	46,419	-	14.5	-
Notes and mortgages payable:				
Rapid	10,041	13,698	2-13.0	2-12.0
View Top Corporation	14,556	17,620	11.5-12.5	12.5-13
McCrory and subsidiaries	30,318	21,909	2-12.4	2-12.1
Schenley	4,480	4,480	14-20.0	14-20.0
Shenandoah Corporation	-	2,254	-	7-8.0
Other subsidiaries	-	38	-	11.2
Total principal amount	1,010,818	1,135,361		
Less: Current maturities	(20,175)	(86,057)		
Unamortized discount	(269,820)	(269,887)		
Total	$ 720,823	$ 779,417		

* Subordinated indebtedness of McCrory or one of its subsidiaries.

The 6-1/2% convertible debentures due 1992 of McCrory are convertible at the rate of $70 principal amount into $45 principal amount of 10% sinking fund subordinated debentures, due 2006 plus $3.25 in cash. The 6-1/2% convertible debentures due 1994 of J. J. Newberry are convertible at a rate of $150 principal amount for each share of J. J. Newberry common stock.

Aggregate principal amount of long-term debt at January 31, 1984 matures as follows:

Year Ending January 31,	(In Thousands)	Five Years Ending January 31,	(In Thousands)
1985	$ 20,175	1989	$ 167,241
1986	52,530	1994	76,356
1987	19,535	1999	293,772
1988	9,906	2004	222,614
1989	65,095	2009	234,589
		2014	16,246
TOTAL ...	$167,241	TOTAL ...	$1,010,818

At January 31, 1984, notes and mortgages payable aggregating approximately $58,000,000 were secured by land, buildings and equipment having an approximate carrying value of $81,000,000.

For information concerning Rapid's recent sale of long-term indebtedness, see Note 23.

McCrory Agreements

At January 31, 1984, $45,000,000 was available under a reducing revolving credit with interest at 1/2% over prime, which agreement was terminated on March 15, 1984.

For information concerning McCrory's guaranty of certain obligations of HRT Industries, Inc., see Note 23.

Otasco Agreement

During June 1982, Otasco obtained a line of credit, from the same regional bank group which provides financing to Otasco Credit, in the aggregate principal amount of $15,000,000, expiring on July 31, 1984 (see Note 3). Rapid has guaranteed Otasco's obligations under the line of credit. There were no borrowings outstanding under this line during the year ended January 31, 1984. At January 31, 1983, there were no borrowings outstanding under this line and the maximum amount outstanding during the period ended January 31, 1983 was $8,000,000. The aggregate borrowings under this agreement and the Otasco Credit agreement are not permitted to exceed $75,000,000.

Schenley Agreement

On December 18, 1978, Schenley entered into a loan agreement with a group of insurance companies ("Schenley Loan Agreement"), pursuant to which Schenley borrowed $115,000,000 evidenced by 10% promissory notes ($30,000,000 and $96,600,000 outstanding at January 31, 1984 and 1983, respectively).

During February 1983, certain provisions in the Schenley Loan Agreement were modified and Schenley made a prepayment of $56,600,000. The modified Schenley Loan Agreement provides for, among other things, four annual payments of $10,000,000, commencing in December 1983. Prepayments are permitted without premium each year up to the amount of the annual payment. Additional prepayments may be made, in certain circumstances, with declining premiums over the term of the loan (5.83% at January 31, 1984).

The modified Schenley Loan Agreement also contains certain amended limitations relating to Schenley's financial position, its indebtedness, dividends and liens, and investments in companies which are not wholly-owned subsidiaries. Commitments to make lease payments and transactions with affiliates, including Rapid, are restricted. Schenley may pay dividends on its common stock in an amount up to 70% of its net income (as defined) after February 1, 1983 and is permitted to make advances (as defined) to Rapid and its subsidiaries.

McGregor Term Loan Agreements

The McGregor term loan agreement ($2,250,000 and $3,250,000 outstanding at January 31, 1984 and 1983, respectively) provides for quarterly payments of $250,000, with interest at prime. Rapid guarantees the obligations of McGregor under this agreement.

For information concerning additional indebtedness incurred in the acquisition of Faberge, see Note 23.

Restricted Net Assets

As described above and in Note 23, certain subsidiaries are restricted by agreements which limit, among other matters, cash dividends and advances to Rapid. At January 31, 1984, the net assets of Rapid's subsidiaries were approximately $645,000,000 (includes net intercompany accounts of approximately $167,000,000), of which the restricted net assets were approximately $288,000,000.

Warrants

At January 31, 1984, there were approximately 765,000 warrants outstanding. Each warrant is exercisable for $45 principal amount of 10% sinking fund subordinated debentures, due 2006 and $3.25 in cash at an exercise price of $35. The warrants are redeemable, at Rapid's option, at $20 per warrant and expire May 15, 1994. In addition, the indentures relating to

Rapid's 7-1/2% sinking fund subordinated debentures, due 1985, 12% sinking fund subordinated debentures, due 1999 and 15% sinking fund subordinated debentures, due 2008, provide that these debentures may be applied at their principal amount to the warrant exercise price. During the year ended January 31, 1984, 22,251 warrants were exercised and $992,000 principal amount of such 10% debentures were issued together with $72,000 in cash.

7. COMMON STOCK

At January 31, 1984 and 1983, Riklis Family Corporation and AFC owned all of the outstanding common stock of Rapid (see Item 12 - "Security Ownership of Certain Beneficial Owners and Management").

8. INCOME TAXES

The examinations by the Internal Revenue Service of the Federal income tax returns of Rapid and its subsidiaries have been substantially completed for the periods ended January 31, 1978. While the liabilities for the above-mentioned periods and open years are subject to final determination, the amounts accrued in the consolidated balance sheets, in the opinion of management, are adequate to cover amounts which may ultimately be payable.

The provisions for income taxes included in the statements of consolidated income consisted of the following:

	Year Ended January 31,		
	1984	1983	1982
	(In Thousands)		
Federal:			
Currently payable	$18,352	$12,267	$ (586)
Deferred	12,476	7,456	15,527
Foreign:			
Currently payable	141	169	649
Deferred	-	-	(58)
State	9,482	8,986	10,819
Total	$40,451	$28,878	$26,351

Investment tax credits of approximately $3,200,000, $3,600,000 and $2,900,000, respectively, for the years ended January 31, 1984, 1983 and 1982 were applied as reductions of Federal income tax provisions.

Deferred Federal and foreign income taxes result from the tax effects of items reported in different periods for tax and financial reporting

purposes. The sources of these differences and the tax effect of each were as follows:

	Year Ended January 31,		
	1984	1983	1982
	(In Thousands)		
Excess of tax over book depreciation	$ 4,328	$ 3,023	$ 1,573
Amortization of debt discount	3,086	3,085	2,041
Deferred gross profit on instalment sales	2,091	834	268
Capital leases adjustment	891	1,802	1,603
Net change in reserves for store closings	825	540	3,739
Disposition of Canadian alcoholic beverage operations	(931)	(2,657)	5,848
Other	2,186	829	397
Total	$12,476	$ 7,456	$15,469

The provisions for income taxes for the years ended January 31, 1984, 1983 and 1982 amounted to $40,451,000, $28,878,000 and $26,351,000, respectively, representing effective income tax rates of 42.5%, 46.9% and 79.1%, respectively. These amounts are different than the amounts of $43,743,000, $28,310,000 and $15,321,000, respectively, computed by applying the statutory Federal income tax rate to income before provision for income taxes. The reasons for the variances from the statutory rate were as follows:

	Year Ended January 31,		
	1984	1983	1982
	(Percent of Pre-tax Income)		
Statutory rate applicable to the period	46.0%	46.0%	46.0%
Increase (decrease) in income tax rate resulting from:			
McGregor sale of common stock	(3.1)	-	-
State tax provision (net of Federal income taxes)	5.4	7.9	15.6
Investment tax credits	(3.4)	(5.9)	(8.6)
Amortization of excess cost of investments over related equities and other intangibles	2.2	3.5	6.5
Foreign income	(.6)	(.9)	(4.8)
Capital gains	(2.2)	(.9)	(3.8)
Amortization of excess of equity over related cost of investment	-	(.4)	(3.4)
Disposition of Canadian alcoholic beverage operations	-	-	38.0
Other	(1.8)	(2.4)	(6.4)
Effective income tax rate	42.5%	46.9%	79.1%

9. NET ASSETS HELD FOR SALE TO STOCKHOLDERS AND AFFILIATES

Rapid and ARG sold on January 1, 1984, the net assets of ARG, Melville and Plastic Toy for $14,000,000 (see Item 13 - "Certain Relationships and Related Transactions", paragraph 3, which is an integral part of these financial statements). This transaction was reflected in the financial statements as of January 31, 1983 with the difference ($3,284,000) between the net carrying value of the assets and the expected proceeds of sale less the related taxes recorded as a reduction of retained earnings.

Subsidiaries of Rapid sold leaseholds for an aggregate price of approximately $8,700,000 (see Item 13 - "Certain Relationships and Related Transactions", paragraphs 29 and 30, which are an integral part of these financial statements). The sales price is evidenced by notes in the aggregate principal amount of approximately $7,280,000, bearing interest at 10%, payable over a 15 year period and the assumption of the remaining payments under a mortgage. The notes are collateralized by an assignment of the income, profits and distributions of the purchasing entities.

10. DUE FROM STOCKHOLDERS AND AFFILIATES

During the year ended January 31, 1984 the amount due from Meshulam Riklis and his wholly-owned entities increased by approximately $2,500,000, primarily as a result of a noninterest bearing loan of $15,000,000, less payment of a previously existing obligation of $12,500,000. The maximum amount due to Rapid from Meshulam Riklis and his wholly-owned entities during the year ended January 31, 1984 was approximately $33,000,000. In addition, during the year ended January 31, 1984, Rapid made a noninterest bearing loan of $10,000,000 to AFC.

During the year ended January 31, 1983 and subsequent thereto, Rapid loaned $25,000,000 to Meshulam Riklis or his wholly-owned entities, $5,245,000 (includes $245,000 of accrued interest) to the Riklis Family Corporation and purchased certain obligations of, and made other advances to, AITS, in the aggregate amount of $4,900,000. Of the foregoing amounts, $21,927,000 was advanced during the period from February 1983 to April 15, 1983, and has been included in current liabilities in the accompanying consolidated balance sheet at January 31, 1983.

During January 1983, Rapid purchased 149 acres of undeveloped land in Connecticut from Meshulam Riklis for $2,111,500 evidenced by a note bearing interest at 6% per year, payable in 1987, together with the assumption of other related obligations. The note payable has reduced amounts due from stockholders and affiliates.

See Item 13 - "Certain Relationships and Related Transactions", paragraphs 4, 5, 9, 10, 15, 17, 21 and 28, which are an integral part of these financial statements.

11. PENSION PLANS

Rapid and its subsidiaries have various contributory and noncontributory pension plans covering eligible employees. The provisions for pension cost relating to the plans were $8,563,000, $11,515,000 and $11,664,000, for the years ended January 31, 1984, 1983 and 1982, respectively. The decrease in pension costs for the year ended January 31, 1984 results primarily from changing the assumed rate of return on pension fund assets from 7% to 8%. It is the general policy to fund accrued pension cost as required.

The accumulated combined plan benefits and combined plan net assets for the various pension plans were as follows:

	January 1, 1984	January 1, 1983
	(In Millions)	
Actuarial present value of accumulated plan benefits:		
Vested	$142.0	$142.0
Nonvested	8.8	9.9
	$150.8	$151.9
Net assets available for benefits	$161.9	$144.7

The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was principally 9%.

Employment agreements with certain officers and employees of Rapid and its subsidiaries provide, among other things, for retirement and/or deferred compensation allowances payable generally over a period of years after employment ceases, contingent upon certain conditions set forth in the agreements. During the years ended January 31, 1984, 1983 and 1982, $1,797,000, $1,697,000 and $2,669,000, respectively, were provided for such allowances.

12. PROPERTY AND LEASE COMMITMENTS

Property, plant and equipment consisted of the following:

	January 31, 1984	January 31, 1983
	(In Thousands)	
Land	$ 36,835	$ 37,139
Buildings, store properties and warehouses	89,387	97,010
Furniture, fixtures and leasehold improvements	331,884	314,720
Machinery and equipment	94,460	83,003
Total	$552,566	$531,872

Rapid and its subsidiaries operate principally in leased premises. The basic terms of the initial leases generally range from 2 to 25 years and usually provide for one or more three to five-year renewal options, plus in many instances, the payment of additional rental based upon percentages of sales, real estate taxes, insurance and maintenance costs.

Property and equipment under capital leases consisted of the following:

	January 31, 1984	January 31, 1983
	(In Millions)	
Buildings and store properties	$ 115.2	$ 119.7
Machinery and equipment	9.9	11.3
Less accumulated amortization	(93.5)	(95.0)
Net	$ 31.6	$ 36.0

Lerner purchased a distribution facility in New Jersey during 1982. In March 1984, Lerner entered into a sale and leaseback transaction for this facility with two partnerships, whose partners include certain directors and officers of Rapid and its subsidiaries. The sales proceeds were applied to pay indebtedness on the property. See Item 13 - "Certain Relationships and Related Transactions", paragraph 25, which is an integral part of these financial statements.

The minimum rental commitments on leases (exclusive of common area charges) in effect at January 31, 1984 are as follows:

Years Ending January 31,	Capital Leases	Operating Leases
	(In Millions)	
1985	$ 9.6	$ 70.2
1986	8.3	65.8
1987	7.5	61.3
1988	6.7	57.9
1989	5.8	54.0
Thereafter	43.0	281.5
Total minimum payments required *	80.9	$590.7
Less:		
Amount representing interest	27.2	
Amount representing estimated executory costs included in minimum lease payments	2.4	
	29.6	
Present value of net minimum lease payments	51.3	
Less current portion	6.0	
Long-term obligations	$ 45.3	

* Minimum payments have not been reduced by minimum sublease rentals of $6.1 million under capital leases and $55.3 million under operating leases due in the future under noncancellable subleases. Contingent rentals which may be paid under certain leases have not been included.

Rental expense relating to operating leases was as follows:

	Year Ended January 31, 1984	1983	1982
	(In Millions)		
Minimum rentals	$72.4	$67.8	$64.9
Contingent rentals and expenses ..	37.4	34.4	31.2
Less - sublease rentals	(12.1)	(11.2)	(10.2)
Net	$97.7	$91.0	$85.9

Contingent rentals applicable to capital leases amounted to $2.2 million, $2.1 million and $3.1 million, respectively, in the years ended January 31, 1984, 1983 and 1982.

13. LITIGATION, COMMITMENTS AND CONTINGENCIES

Rapid and certain of its subsidiaries are defendants in various actions in which plaintiffs allege violations of antitrust laws, corporation laws, or product liability laws. Substantial damages or significant declaratory or injunctive relief are requested in these actions. In addition, actions are pending and there are asserted and unasserted claims against Rapid and certain of its subsidiaries by landlords, vendors, customers, former employees and others in which substantial damages are or may be requested. Rapid and its subsidiaries are unable to predict the possible range of damages in those actions where an amount of monetary damages is not specified. While Rapid and its subsidiaries intend to defend vigorously such actions and claims, management, after discussions with counsel, is unable to predict with certainty the ultimate outcome of such actions and claims or whether any of them will result in any significant liability to Rapid on a consolidated basis. See Item 3 - "Legal Proceedings", which is an integral part of these financial statements.

At January 31, 1984, Rapid was guarantor of the following: (a) approximately $22,000,000 of lease payments supporting industrial revenue bonds and approximately $24,000,000 of other lease payments, all of which are obligations of former subsidiaries, as to which the purchasers of such subsidiaries have agreed to indemnify Rapid against any loss under the guarantees; (b) other obligations of approximately $2,000,000, certain of which are lease payments of subsidiaries; and (c) certain obligations of Meshulam Riklis or entities wholly-owned by him aggregating approximately $25,000,000 (see Item 13 - "Certain Relationships and Related Transactions", paragraphs 3, 7, 8 and 13).

Rapid and certain of its subsidiaries make payment to foreign suppliers in the ordinary course of business by means of letters of credit. At January 31, 1984, letters of credit outstanding aggregated approximately $33,000,000.

14. OTHER REVENUES

Other revenues - net consisted of the following:

	Year Ended January 31, 1984	1983	1982
	(In Thousands)		
Interest income	$12,416	$23,204	$11,424
Gain on sale of race track	6,760	-	-
Royalties - net	5,575	4,617	3,894
Gain on sale of other property and equipment	3,188	-	3,978
Income of nonconsolidated subsidiaries - net	1,236	2,487	2,313
Gain on sale of lease	551	4,129	-
Gain on cash purchases of subordinated debentures for sinking funds	329	1,655	89
Gain on sale of airplane	-	-	5,219
Sundry - net	9,504	8,644	2,841
Total	$39,559	$44,736	$29,758

15. SUPPLEMENTARY INCOME STATEMENT INFORMATION

	Year Ended January 31, 1984	1983	1982
	(In Thousands)		
Maintenance and repairs	$ 16,681	$ 21,598	$ 24,005
Depreciation and amortization of property, plant and equipment	$ 37,804	$ 35,752	$ 33,901
Amortization of intangible assets	$ 4,681	$ 4,751	$ 4,822
Taxes, other than income taxes:			
Property	$ 14,693	$ 14,936	$ 14,830
Payroll	34,462	35,041	36,268
Federal excise, rectification taxes and duties on imported products	121,706	181,532	201,919
State beverage taxes	-	732	1,326
Other	3,586	3,418	4,531
Total	$174,447	$235,659	$258,874
Advertising costs	$ 59,419	$ 65,134	$ 70,932

16. ACCRUED EXPENSES AND SUNDRY

Accrued expenses and sundry consisted of the following:

	January 31, 1984	January 31, 1983
	(In Thousands)	
Salaries, wages, commissions, etc.	$ 44,100	$ 27,889
Taxes, other than Federal and foreign income	42,313	44,823
Interest	18,914	19,681
Contributions to employee benefit plans	12,903	14,859
Rents	10,326	11,111
Reserves for store closings	2,719	3,444
Other	30,845	34,752
Total	$162,120	$156,559

17. SALE OF RACE TRACK

During August 1983, Rapid's subsidiary, Shenandoah Corporation, which owned and operated a thoroughbred horse racing track in Charles Town, West Virginia, sold substantially all of its assets to an unrelated third party. Rapid recorded a pre-tax gain of approximately $6,800,000 on such sale, before related income taxes of approximately $1,850,000.

18. SALE OF CANADIAN ALCOHOLIC BEVERAGE OPERATIONS

Effective October 1, 1981, Schenley sold its Canadian operations to an unrelated third party. The sale price was equal to the book value of the Canadian operations at that date, less an amount representing certain inventory which is to be delivered to Schenley over the next several years. Schenley recognized a nonrecurring loss on this transaction of $6,337,000, principally attributable to the difference between Schenley's carrying value and the Canadian book value of such Canadian operations, as translated into U.S. currency. In addition, Schenley provided Federal and state income tax with respect to this disposition in the amount of $9,748,000 principally attributable to the U.S. tax on the previously undistributed earnings of the Canadian operations which were considered to be permanently invested.

19. EXTRAORDINARY CREDIT

Rapid, pursuant to an exchange offer which expired in November 1983, issued $46,419,000 principal amount of 11-3/4% sinking fund subordinated debentures, due 2009 in exchange for an equal principal amount of 6% sinking fund subordinated debentures, due 1988. Rapid recorded an extraordinary gain of $2,281,000 (after deferred Federal income taxes of $1,943,000) on the exchange representing the difference between the carrying value of the debentures tendered (the principal amount tendered reduced by applicable unamortized debt discount) and the fair value of the debentures issued.

McCrory, pursuant to an exchange offer which expired in August 1983, issued $6,835,000 principal amount of 9-1/2% sinking fund subordinated debentures, due 2008 in exchange for an equal principal amount of 7-1/2% sinking fund subordinated debentures, due 1994 (new issue). McCrory recorded an extraordinary gain of $679,000 (after deferred Federal income taxes of $578,000) on the exchange representing the difference between the carrying value of the debentures tendered (the principal amount tendered reduced by applicable unamortized debt discount) and the fair value of the debentures issued.

Rapid, pursuant to an exchange offer which expired in March 1983, issued $13,391,690 principal amount of 15% sinking fund subordinated debentures, due 2008 in exchange for an equal principal amount of 7-1/2% sinking fund subordinated debentures, due 1985. Rapid recorded an extraordinary gain of $527,000 (after deferred Federal income taxes of $449,000) on the exchange representing the difference between the carrying value of the debentures tendered (the principal amount tendered reduced by applicable unamortized debt discount) and the fair value of the debentures issued.

McCrory, pursuant to exchange offers which expired during February and March 1983 (i) issued $32,731,000 principal amount of 9-1/2% sinking fund subordinated debentures, due 2008 in exchange for an equal principal amount of 7-1/2% sinking fund subordinated debentures, due 1994 (old issue), (ii) issued $43,491,000 principal amount of 9-5/8% sinking fund subordinated debentures, due 2008 in exchange for an equal principal amount of 7-5/8% sinking fund subordinated debentures, due 1997 and (iii) issued $47,093,000 principal amount of 9-3/4% sinking fund subordinated debentures, due 2008 in exchange for an equal principal amount of 7-3/4% sinking fund subordinated debentures, due 1995. McCrory recorded an extraordinary gain of $13,307,000 (after deferred Federal income taxes of $11,335,000) on the three exchanges representing the difference between the carrying value of the debentures tendered (the principal amount tendered reduced by applicable unamortized debt discount) and the fair value of the debentures issued.

20. INTERIM FINANCIAL INFORMATION (Unaudited)

Year Ended January 31, 1984	Quarter Ended, April 30	July 31	Oct. 31	Jan. 31
	(In Millions)			
Net sales	$528.8	$563.5	$630.3	$722.1
Gross profit	157.9	174.5	197.9	235.8
Income (loss) before provision for income taxes and extraordinary credit	(.2)	13.4	39.9	40.8
Income (loss) before extraordinary credit	(1.1)	6.5	24.9	23.2
Net income (loss)	(1.1)	7.2	27.1	23.2
Year Ended January 31, 1983				
Net sales	$601.4	$574.4	$642.5	$752.4
Gross profit	177.0	168.9	193.6	222.5
Income (loss) before provision for income taxes and extraordinary credit	6.3	(3.8)	12.5	46.5
Income (loss) before extraordinary credit	2.3	(3.5)	6.1	27.8
Net income (loss)	2.3	(3.5)	6.1	41.6

21. PARENT COMPANY FINANCIAL STATEMENTS

The following are condensed financial statements of Rapid-American Corporation (Parent Company):

CONDENSED BALANCE SHEETS

ASSETS	January 31, 1984	1983
	(In Thousands)	
Current assets	$ 5,439	$ 33,320
Investments and advances	518,353	446,678
Property, plant and equipment - net	29,829	28,629
Intangibles - net	210,930	231,632
Other assets	17,624	9,689
Total	$782,175	$749,948
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities	$ 95,674	$102,913
Long-term debt, less current maturities and unamortized discount	528,006	531,948
Other noncurrent items	61,732	54,738
Stockholders' equity, less due from stockholders and affiliates ($52,375,000 and $38,877,000)	96,763	60,349
Total	$782,175	$749,948

Aggregate principal amount of long-term debt at January 31, 1984 matures as follows:

Year Ending January 31,	(In Thousands)	Five Years Ending January 31,	(In Thousands)
1985	$ 3,796	1989	$ 90,888
1986	21,441	1994	54,152
1987	3,315	1999	236,285
1988	3,246	2004	185,584
1989	59,090	2009	163,007
		2014	16,246
TOTAL	$90,888	TOTAL	$746,162

CONDENSED STATEMENTS OF INCOME

	Year Ended January 31, 1984	1983	1982
	(In Thousands)		
Net sales and other revenues	$ 9,233	$ 9,749	$ 6,499
Non-taxable gain on public sale by McGregor of its common stock	7,912	-	-
Costs, expenses and other deductions	(25,256) *	(19,330)	(23,950)
Interest and debt expense	(93,051)	(82,031)	(85,565)
Income tax benefits	48,906	40,809	45,383
Loss from operations before equity in income of subsidiaries and extraordinary credit	(52,256)	(50,803)	(57,633)
Equity in income of subsidiaries	105,740	83,468	64,588
Income before extraordinary credit ..	53,484	32,665	6,955
Extraordinary credit - net of tax ...	2,281	527	-
Equity in extraordinary credit of subsidiary	679	13,307	-
Net income	$ 56,444	$ 46,499	$ 6,955

* Includes additional bonuses of $6,725,000 earned by operating personnel of McCrory Stores.

CONDENSED STATEMENTS OF CHANGES IN FINANCIAL POSITION

	Year Ended January 31, 1984	1983	1982
		(In Thousands)	
Funds Provided:			
Operations:			
Income before extraordinary credit	$ 54,163	$ 45,972	$ 6,955
Less - equity in income of subsidiaries	106,419	96,775	65,983
Loss before equity in income of subsidiaries	(52,256)	(50,803)	(59,028)
Cash dividends from subsidiaries	52,709	58,816	30,473
Items not currently requiring funds - depreciation and amortization (including debt discount and intangibles) and deferred income taxes	14,469	15,499	13,529
Non-taxable gain on public sale by McGregor Corporation of its common stock	(7,912)		
Funds provided by (used in) operations	7,010	23,512	(15,026)
Extraordinary credit:			
Gain on debenture exchange	2,281	527	
Deferred income taxes	1,943	449	
Decrease in long-term debt	(4,224)	(976)	
Redemption of preferred stock by McGregor Corporation	30,000		
Increase in other long-term debt		1,198	13,420
Decrease in investments and advances - net	2,829	57,976	48,742
Disposals of property, plant and equipment		263	132
	39,839	82,949	47,268
Funds Applied:			
Purchase of marketable securities and other investments	31,341	2,686	1,200
Due from stockholders and affiliates	13,498	33,014	5,863
Increase in other assets	9,185	777	2,623
Decrease in other long-term debt	5,083	15,166	7,654
Acquisition of subsidiary			6,496
Acquisition/redemption of common, preference and preferred stocks and warrants		11,787	3,624
Cash dividends	1,827	4,005	3,615
Additions to property, plant and equipment	1,749	6,754	15,442
Loans to certain directors and officers - net	605	3,291	3,150
Other - net	(2,807)	3,072	(3,245)
	60,481	80,552	46,422
Increase (Decrease) in Working Capital	$(20,642)	$ 2,397	$ 846
Increase (Decrease) in Working Capital by Major Components:			
Current assets	$(27,881)	$ 13,725	$ (7,066)
Current liabilities	7,239	(11,328)	7,912
Increase (Decrease) in Working Capital	$(20,642)	$ 2,397	$ 846

22. SEGMENT INFORMATION

See Item 1 - "Business - Segment Information" for net sales, operating profit (loss) and asset information relating to Rapid's industry segments, which is an integral part of these financial statements. Additional information concerning industry segments follows:

	Year Ended January 31,					
	1984		1983		1982	
	Capital Expenditures	Depreciation and Amortization	Capital Expenditures	Depreciation and Amortization	Capital Expenditures	Depreciation and Amortization
	(In Millions)					
Retail Merchandising:						
McCrory Stores	$16.7	$12.8	$10.4	$11.9	$15.6	$10.5
Lerner Stores	27.5	12.3	21.4	11.3	15.6	11.0
OTASCO Automotive and Home Accessories Stores	2.0	3.7	7.2	3.4	7.5	2.8
Others	-	.1	.1	.1	.1	.2
Alcoholic Beverages-Schenley	2.1	2.9	4.3	3.4	16.5	4.0
McGregor and Others	4.2	2.3	1.5	3.3	2.4	3.1
Net Assets Held for Sale to Stockholders and Affiliates	-	-	1.0	.3	.1	.2
Corporate and other	5.1	3.7	19.0	2.1	25.1	2.1
Total	$57.6	$37.8	$64.9	$35.8	$82.9	$33.9

23. SUBSEQUENT EVENTS

During December 1983 and January 1984, McGregor acquired 461,000 shares of common stock of Faberge, Incorporated in open market transactions and, in addition, during January 1984, entered into a contract to acquire 777,800 shares of Faberge common stock (acquired in February 1984) from a third party (collectively approximately 22% of the total issued and outstanding shares). On January 19, 1984, McGregor entered into a merger agreement with Faberge, which provided, among other things, that McGregor make a cash tender offer for up to 2,200,000 shares of Faberge common stock (approximately 39% of the total issued and outstanding) for $32 per share net to the seller. Pursuant to the offer 2,200,000 shares were acquired. In addition, the merger agreement provides that a wholly-owned subsidiary of McGregor will be merged into Faberge which would then become a wholly-owned subsidiary of McGregor and that each share of Faberge common stock (other than those owned by McGregor and those as to which appraisal is duly sought) will be converted into the right to receive $32 principal amount of subordinated notes of McGregor due 1994. On March 1, 1984, McGregor entered into a loan agreement with a group of banks, pursuant to which McGregor borrowed $100,000,000. The loan agreement also provides for a $20,000,000 revolving credit line for working capital

requirements. The $100,000,000 loan was used to finance purchases of shares of Faberge common stock. The loan agreement requires McGregor to maintain minimum levels of (i) working capital, (ii) cash flow, (iii) net worth, and (iv) ratios of current assets to current liabilities and total liabilities to net worth (as each term is defined). In addition, the loan agreement includes other material restrictions on McGregor and its subsidiaries, including restrictions on dividends, advances, additional indebtedness, liens, guarantees, lease commitments, capital expenditures, the disposition of property, investments, and the right to engage in business combinations. McGregor agreed to pledge to the banks, as collateral for the loan, all shares of Faberge common stock owned or to be owned by it, and assigned to the banks all royalty and license fees receivable, its equipment, its interests in real property, including assignments of leasehold interests, amounts due from factors, and its trademarks.

McCrory entered into a joint venture with Schottenstein Stores Corporation for the purpose of investing in HRT, which had been operating under Chapter 11 of the United States Bankruptcy Code. Each party owns a 50% interest in the joint venture. During March 1984, the joint venture acquired 55% of the shares of HRT common stock for $18,000,000 and arranged for up to $35,000,000 of credit facilities for HRT. In addition, during March 1984, McCrory acquired an option exercisable during January 1985 to purchase Schottenstein's interest in the joint venture for $13,225,000, against which a $1,000,000 non-refundable deposit was paid. In connection therewith, McCrory guaranteed certain of HRT's credit facilities and, in addition, loaned Schottenstein $9,000,000, without interest, payable during January 1985. If McCrory does not exercise the option, Schottenstein has the right to acquire McCrory's interest in the joint venture for $9,000,000. The guaranty requires McCrory to maintain minimum levels of (i) consolidated tangible net worth plus subordinated indebtedness, (ii) consolidated net current assets, and (iii) ratios of consolidated current assets to current liabilities (as each term is defined). In addition, Lerner is required to maintain a minimum level of consolidated tangible net worth. The guaranty also contains other material restrictions on McCrory and its subsidiaries, including restrictions on indebtedness, liens, guarantees, the disposition of property and the right to engage in business combinations. Subject to certain limitations, McCrory may pay cash dividends on its common stock in an amount not exceeding 50% of its consolidated net income (as defined) and may also pay cash dividends on its preference stocks in accordance with the stated dividend rates.

In March 1984, Rapid received proceeds of approximately $333,000,000 from the public sale of $200,000,000 principal amount of 14-1/2% senior subordinated notes, due to 1994 and $506,000,000 principal amount of serial zero coupon senior subordinated debentures, due 1985 through 2007. Substantially all the net proceeds of approximately $192,000,000 from the sale of the 14-1/2% notes are being advanced to McCrory, which will use

such proceeds for refurbishing its stores, the purchase of investment securities (including securities of AFC and certain of its affiliates, see Item 13 - "Certain Relationships and Related Transactions", paragraph 34, which is an integral part of these financial statements) and working capital. The net proceeds of approximately $141,000,000 from the sale of the zero debentures have been utilized to purchase approximately $157,000,000 principal amount of Rapid's 10% sinking fund subordinated debentures, due 2006, and for working capital. The purchase of 10% debentures resulted in a loss of approximately $18,300,000 (after related income taxes of $15,600,000), representing the difference between Rapid's carrying value of the 10% debentures and the aggregate cost of acquiring such debentures. Such loss will be recorded in Rapid's first quarter ending April 30, 1984. For a description of certain restrictions contained in the indentures covering the 14-1/2% notes and zero debentures, see Item 5 - "Market for the Registrant's Common Equity and Related Stockholder Matters".

During February 1984, Rapid entered into agreements with World Wide and AFC to acquire from them an aggregate of $30,000,000 principal amount of Rapid 7% subordinated debentures, due 1994, and issued to World Wide and AFC its negotiable promissory notes, due March 1, 1986, in an aggregate principal amount of $30,000,000 (see Item 13 - "Certain Relationships and Related Transactions", paragraph 6, which is an integral part of these financial statements). Upon receipt of the 7% debentures, Rapid will charge retained earnings with the difference between the purchase price and the carrying value (approximately 80%) of such debentures.

During April 1984, Schenley paid $9,000,000 to Mr. Isidore A. Becker (formerly Chairman and Chief Executive Officer of Schenley) upon termination of his employment with Schenley and his agreement not to compete with Schenley for a period of years. See Item 13 - "Certain Relationships and Related Transactions", paragraph 13.

SCHEDULE II

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

AMOUNTS RECEIVABLE FROM RELATED PARTIES AND UNDERWRITERS, PROMOTERS, AND EMPLOYEES OTHER THAN RELATED PARTIES - CONSOLIDATED
For the Three Years Ended January 31, 1984
(In Thousands)

Column A	Column B	Column C	Column D	Column E	
	Balance at beginning of year	Additions (Other)	Amounts Collected	Balance at end of year	
Name of debtor (1)				Current	Not current
1984:					
Meshulam Riklis and wholly-owned entities (2)	$26,508	$29,310	$26,853	$ 34	$28,931
		2,536			2,536 (3)
Carl H. Lindner and majority-owned entity (2)	2,220	10,000			12,220
Riklis Family Corporation (2)	5,245	(245)			5,000
AITS, Inc. (2)	4,900	111			5,011
Specialty Store Group, Inc. (2)	475		50	75	350
Harold S. Divine (2) .	286	1,000	286		1,000
Acklinis Associates ..		7,280	221	337	6,722 (3)
American Recreation Group, Limited Partnership.........		2,531			2,531 (3)
Leonard C. Lane	6,255	1,125	5	1,125	6,250
Isidore A. Becker	2,025	2,175	25		4,175
Arie Genger	1,200				1,200
Daniel J. Manella	1,286	200	286		1,200
Bernard J. Blaney	600				600
Ben Litwak	300				300
	51,300	56,023	27,726	1,571	78,026
Unamortized Discount..	(5,176)	(68)	(459)		(4,785)
Total	$46,124	$55,955	$27,267	$1,571	$73,241
1983:					
Meshulam Riklis and wholly-owned entities (2)	$ 3,350	$25,000	$ 10	$ 10	$26,218
		(2,112)			
Carl H. Lindner (2) ..	2,220				2,220
Riklis Family Corporation (2)		5,245			5,245
AITS, Inc. (2)		4,900			4,900
Specialty Store Group, Inc. (2)	500		25	50	425
Leonard C. Lane	6,260		5	5	6,250
Franconia Associates .	312		32	33 (4)	247 (4)
Isidore A. Becker	2,050		25	25	2,000
Arie Genger	1,200				1,200
Daniel J. Manella	486	1,000	200	286	1,000
Bernard J. Blaney	600				600
Ben Litwak		300			300
Harold S. Divine	286			286	
	17,264	34,333	297	695	50,605
Unamortized Discount..	(4,376)	(978)	(178)	-	(5,176)
Total	$12,888	$33,355	$ 119	$ 695	$45,429
1982:					
Meshulam Riklis (2) ..	$ 30	$ 3,330	$ 10	$ 10	$ 3,340
Carl H. Lindner (2) ..		2,220			2,220
Specialty Store Group, Inc. (2)		500		25	475
Leonard C. Lane	15	6,250	5	5	6,255
Isidore A. Becker	75	2,000	25	2,025	25
Arie Genger		1,200			1,200
Bernard J. Blaney		600			600
Franconia Associates..	341		29	30	282
Harold S. Divine	286			286	
Daniel J. Manella	286	200		486	
	1,033	16,300	69	2,867	14,397
Unamortized Discount..	(13)	(4,363)		(144)	(4,232)
Total	$ 1,020	$11,937	$ 69	$2,723	$10,165

(1) See Item 13 - "Certain Relationships and Related Transactions".
(2) For financial statement purposes, included in amounts due from stockholders and affiliates in the accompanying balance sheets.
(3) For financial statement purposes, included in other assets - deferred charges, mortgages and sundry (collateralized by various properties).
(4) Assumed during the year ended January 31, 1984 by an entity wholly-owned by Meshulam Riklis.

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS

For the Three Years Ended January 31, 1984
(In Thousands)

Column A	Column B	Column C		Column D	Column E
		Additions			
Descriptions	Balance at beginning of year	Charged to Costs and Expenses	Charged to Other Accounts	Deductions	Balance at end of year
1984:					
Allowances deducted from assets to which they apply:					
Doubtful accounts receivable: Trade	$ 3,522	$2,305	$ 100	$2,301 500 (3)	$ 3,126
Transportation claims	50			50	-
Allowances for discounts and allowances	438			938 (3) (500)(3)	-
Total	4,010	2,305	100	3,289	3,126
Doubtful accounts receivable - other (1)	826	157		189	794
Total	4,836	2,462	100	3,478	3,920
Reserves for revaluation of investment in common stock of nonconsolidated subsidiaries and affiliates (2)	4,945		3,173 (4)		8,118
Reserves for store closings	11,562	1,521 (5)		4,010	9,073
Total	16,507	1,521	3,173	4,010	17,191
Total	$21,343	$3,983	$3,273	$7,488	$21,111
1983:					
Allowances deducted from assets to which they apply:					
Doubtful accounts receivable:					
Trade	$ 3,302	$3,008		$2,788	$ 3,522
Transportation claims	50				50
Allowances for discounts and allowances	425	13			438
Total	3,777	3,021		2,788	4,010
Doubtful accounts receivable - other (1)	1,032	446		652	826
Total	4,809	3,467		3,440	4,836
Reserves for revaluation of investment in common stock of nonconsolidated subsidiaries and affiliates (2)	6,375	37		1,467	4,945
Reserves for store closings	13,593	2,507 (5)		4,538	11,562
Total	19,968	2,544		6,005	16,507
Total	$24,777	$6,011		$9,445	$21,343

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS

For the Three Years Ended January 31, 1984
(In Thousands)

Column A	Column B	Column C		Column D	Column E
		Additions			
Descriptions	Balance at beginning of year	Charged to Costs and Expenses	Charged to Other Accounts	Deductions	Balance at end of year
1982:					
Allowances deducted from assets to which they apply:					
Doubtful accounts receivable:					
Trade	$ 3,578	$ 2,180		$ 2,456	$ 3,302
Transportation claims	149			99	50
Allowances for discounts and allowances	152	273			425
Total	3,879	2,453		2,555	3,777
Doubtful accounts receivable - other (1)	1,011	264		243	1,032
Total	4,890	2,717		2,798	4,809
Reserves for revaluation of investment in common stock of nonconsolidated subsidiaries and affiliates (2)	8,034	141		1,800	6,375
Reserves for store closings	23,274	(621) (5)	$ 2,380 (6)	11,440	13,593
Total	31,308	(480)	2,380	13,240	19,968
Total	$36,198	$ 2,237	$ 2,380	$16,038	$24,777

Notes:

(1) Reserve account has been netted against applicable accounts receivable.
(2) Deducted from investments to which they apply.
(3) Reclassifications.
(4) Includes $3,769,000 for foreign currency translation adjustment.
(5) Includes imputed interest of $1,521,000 in 1984, $2,074,000 in 1983 and $1,975,000 in 1982, provisions of $433,000 and $3,013,000 for Britts in 1983 and 1982, respectively, and $5,609,000 reversal of reserves in 1982.
(6) Transfer of related capital lease obligation and excess credit.

INDEX TO EXHIBITS

Exhibits		Page No.
(2)	Letter Agreement, dated as of February 1, 1980, relating to the Employment Agreement of even date between McCrory and Arie Genger, filed as Exhibit 10(d)(2) to the Joint Registration Statement, which is incorporated herein by reference.	*
(3)	Severance Agreement, dated December 1, 1981, between McCrory and Arie Genger, filed as Exhibit 20(a) to Rapid's Form 10-K for the fiscal year ended January 31, 1982 (the "1982 10-K"), which is incorporated herein by reference.	*
(d)(1)	Employment Agreement between Rapid and Leonard C. Lane, dated as of February 1, 1974, filed as Exhibit 10(e)(1) to the Joint Registration Statement, which is incorporated herein by reference.	*
(2)	Supplemental Agreement, dated as of October 19, 1978, to the Employment Agreement, dated as of February 1, 1974, between Rapid and Leonard C. Lane, filed as Exhibit 10(e)(2) to the Joint Registration Statement, which is incorporated herein by reference.	*
(3)	Severance Agreement, dated February 3, 1982, between Rapid and Leonard C. Lane, filed as Exhibit 20(b) to the 1982 10-K, which is incorporated herein by reference.	*
(e)	Employment Agreement, dated as of November 20, 1982, between Rapid and Meshulam Riklis, filed as Exhibit (i) to Rapid's Form 10-Q for the fiscal quarter ended July 31, 1982 (the "Second Quarter 10-Q"), which is incorporated herein by reference.	*
(f)(1)	Employment Agreement, dated as of December 15, 1983, between Daniel J. Manella and McCrory, filed as Exhibit 10.34 to the Form S-2, which is incorporated herein by reference.	*
(2)	Employment Agreement, dated as of October 27, 1983, between Daniel J. Manella and McGregor, filed as Exhibit 10.19 to McGregor's Registration Statement on Form S-1, Registration No. 2-85703, which is incorporated herein by reference.	*
(g)	Employment Agreement, dated as of January 25, 1984, between Schenley and Charles L. Jarvie, filed as Exhibit 10.35 to the Form S-2, which is incorporated herein by reference.	*

Exhibits		Page No.
(h)	Employment Agreement, dated as of February 1, 1982, between McCrory and J. Philip Lux.	E - 9***
(i)	Employment Agreement, dated as of July 1, 1981, between Bernard J. Blaney and McCrory, filed as Exhibit 10(l) to the 1982 10-K, which is incorporated herein by reference.	*
(j)(1)	Employment Agreement between McCrory and Ben Litwak, dated as of November 30, 1982, filed as Exhibit 10(u) to Rapid's Form 10-K for the fiscal year ended January 31, 1983 (the "1983 10-K "), which is incorporated herein by reference.	*
(2)	Letter Agreement, dated September 19, 1983, relating to the Employment Agreement, dated November 30, 1982, between McCrory and Ben Litwak.	E - 10***
(k)	Loan Agreement, dated October 15, 1981, between Bernard J. Blaney and McCrory filed as Exhibit 10(m) to the 1982 10-K, which is incorporated herein by reference.	*
(l)	Loan Agreement, dated December 1, 1981, between Arie Genger and McCrory filed as Exhibit 10(n) to the 1982 10-K, which is incorporated herein by reference.	*
(m)	Loan Agreement, dated February 3, 1982, between Leonard C. Lane and Rapid filed as Exhibit 10(o) to the 1982 10-K, which is incorporated herein by reference.	*
(n)(1)	Loan Agreement, dated August 10, 1982, between Meshulam Riklis and Rapid, filed as Exhibit (ii) to the Second Quarter 10-Q, which is incorporated herein by reference.	*
(2)	Loan Agreement, dated August 10, 1982, between Meshulam Riklis and Rapid, filed as Exhibit (iii) to the Second Quarter 10-Q, which is incorporated herein by reference.	*
(o)	Schenley's Employees' Retirement and Benefit Plan, Restated effective January 31, 1976 and as amended through May 24, 1979, filed as Exhibit 10(j) to the Joint Registration Statement, which is incorporated herein by reference.	*

Exhibits		Page No.
(p)	McCrory's Plan of Retirement for Directors adopted January 10, 1978, filed as Exhibit 10(k) to the Joint Registration Statement, which is incorporated herein by reference.	*
(q)	Sale of Stock Agreement, dated February 3, 1982, among Rapid, Meshulam Riklis and Carl H. Lindner filed as Exhibit 10(p) to the 1982 10-K, which is incorporated herein by reference.	*
(r)(1)	Credit Agreement (the "Credit Agreement"), dated as of June 19, 1981, among McCrory and 10 banks, filed as an exhibit to Rapid's Current Report on Form 8-K, dated July 9, 1981 (the "July 1981 8-K"), which is incorporated herein by reference.	*
(2)	Guaranty and Pledge Agreement, dated as of June 19, 1981, among Rapid and Chemical Bank, as agent for the banks under the Credit Agreement, filed as an exhibit to the July 1981 8-K, which is incorporated herein by reference.	*
(s)	ILC Debt Agreement, dated February 3, 1982, among Rapid, ILC and Leonard C. Lane filed as Exhibit 10(q) to the 1982 10-K, which is incorporated herein by reference	*
(t)	Agreement, dated February 1, 1981, between Nassau Business Consultants, Inc. and Rapid filed as Exhibit 10(r) to the 1982 10-K, which is incorporated herein by reference.	*
(u)	Loan Agreement between McCrory and Ben Litwak, dated November 30, 1982, filed as Exhibit 10(v) to the 1983 10-K which is incorporated herein by reference.	*
(v)(1)	Merger Agreement, dated as of January 19, 1984, between McGregor and Faberge, Incorporated, set forth as Exhibit "A" to the Prospectus forming part of McGregor's Registration Statement on Form S-14, Registration No. 2-90048 ("McGregor's Registration Statement"), which is incorporated herein by reference.	*
(2)	Credit Agreement, dated as of March 1, 1984, among McGregor and the banks listed therein, filed as Exhibit 10.29 to McGregor's Registration Statement, which is incorporated herein by reference.	*

Exhibits		Page No.
(3)	Security Agreement, dated as of March 1, 1984, between McGregor and Manufacturers Hanover Trust Company, as agent (the "Agent"), filed as Exhibit 10.30 to McGregor's Registration Statement, which is incorporated herein by reference.	*
(4)	Pledge Agreement, dated as of March 1, 1984, made by McGregor in favor of the Agent, filed as Exhibit 10.31 to McGregor's Registration Statement, which is incorporated herein by reference.	*
(5)	Agreement, dated March 13, 1984, between McGregor and Shamrock Holdings Inc., filed as Exhibit (c)(3) to McGregor's Schedule 14D-1, filed with the Commission on January 23, 1984, which is incorporated herein by reference.	*
(6)	Option Agreement, dated January 19, 1984, between McGregor and Faberge, Incorporated, filed as Exhibit (c)(2) to McGregor's Schedule 14D-1, filed with the Commission on January 23, 1984, which is incorporated herein by reference.	*
(w)(1)	Second Amended and Restated Stock Purchase and Financing Agreement, dated December 23, 1983, between Schottenstein Stores Corporation and HRT Industries, Inc., filed as Exhibit A to Exhibit 3 to the Schedule 13D of McCrory, M&S Joint Venture and Schottenstein Stores Corporation, filed with the Commission on March 23, 1984 (the "Schedule 13D"), which is incorporated herein by reference.	*
(2)	Joint Venture Agreement, dated December 14, 1983, between McCrory and Schottenstein Stores Corporation, Addenda Numbers 1 and 2 thereto, and agreement dated February 8, 1984, with respect thereto, filed as Exhibit 5 to the Schedule 13D, which is incorporated herein by reference.	*
(3)	Assignment and Assumption Agreement, dated December 23, 1983, between Schottenstein Stores Corporation and M&S Joint Venture, filed as Exhibit G to Exhibit 4 to the Schedule 13D, which is incorporated herein by reference.	*
(4)	Option Agreement, dated March 13, 1984, between McCrory and Schottenstein Stores Corporation, filed as Exhibit 7 to the Schedule 13D, which is incorporated herein by reference.	*

* Incorporated by reference.
** For a description of Rapid's other long-term indebtedness, see Note 6 to Financial Statements. Rapid agrees to furnish to the Commission copies of such instruments upon its request.
*** Exhibit omitted.

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES AND PREFERRED DIVIDENDS COMBINED

	Year Ended January 31,				
	1984	1983	1982	1981	1980
	(In Thousands, Except Ratios)				
Earnings as defined:					
Income before provision for income taxes and extraordinary credit (1)	$ 95,099	$ 61,543	$ 33,306	$ 50,442	$ 63,333
Add: Fixed charges as defined:					
Interest and debt expense (2)	129,772	152,168	157,142	114,490	120,127
One third of annual rents (3)	37,366	34,780	33,068	30,419	28,075
Fixed charges (excluding capitalized interest)	167,138	186,948	190,210	144,909	148,202
Capitalized interest	561	2,447	951		
Preferred dividend requirements (4)	1,507	1,715	3,702	17,235	6,696
Total fixed charges and preferred dividend requirements as defined	169,206	191,110	194,863	162,144	154,898
Total earnings as defined	$262,237	$248,491	$223,516	$195,351	$211,535
Ratio of earnings to fixed charges and preferred dividends combined	1.55	1.30	1.15	1.20	1.37

(1) Income before provision for income taxes and extraordinary credit per statement of consolidated income	$ 93,935				
Minority interest	1,164				
	$ 95,099				
(2) Interest and debt expense:					
Per statement of consolidated income	$132,434	$155,659	$161,258	$117,607	$122,588
Otasco Credit - net adjustment	(2,662)	(3,491)	(4,116)	(3,117)	(2,461)
Total (to above)	$129,772	$152,168	$157,142	$114,490	$120,127

(3) Representative of the interest factor relating to rental expense.

(4) Consolidated preferred dividends on a pretax basis.

TABLE OF RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

The following table sets forth certain information, as of April 20, 1984, with respect to the subsidiaries of Rapid, other than certain subsidiaries which, if considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary.

	Percentage of voting securities owned by its immediate parent	State or other jurisdiction in which incorporated
Parent (1)		
Subsidiaries of Rapid:		
McCrory Corporation	100%(2)	Delaware
Schenley Industries, Inc.	100%	Delaware
McGregor Corporation	53.8%	New York
Rapid Typographers Company, Inc. ...	100%	Delaware
Rapid Distribution Service, Inc. ...	100%	Delaware
RAAM Information Services Corporation	100%	Delaware
View Top Corporation	100%	Delaware
Schenley Medical Imaging, Inc.	100%	Delaware
Subsidiaries of McCrory:		
Lerner Stores Corporation	100%	Maryland
Otasco, Inc.	100%	Nevada
J. J. Newberry Co.	100%	Delaware
HRT Industries, Inc.	27.5%(3)	Delaware
S. Klein Department Stores, Inc. ...	100%	New York
Subsidiaries of Lerner:		
Lerner owns 100% of the voting securities of its 11 subsidiaries, of which nine operate retail stores, and two service retail stores.		
Subsidiary of Otasco:		
Otasco Credit Corporation	100%	Nevada
Subsidiary of Newberry:		
J. J. Newberry Canadian Ltd.	100%	Canada
Subsidiaries of Schenley:		
AGE Bodegas Unidas, S.A.	49.3%	Spain
Distributors of New England, Inc. ..	100%	Mass.
Dreyfus-Ashby & Co. Limited	100%	United Kingdom
Dubonnet Wine Corporation	100%	New York

TABLE OF RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

	Percentage of voting securities owned by its immediate parent	State or other jurisdiction in which incorporated
Subsidiaries of Schenley (cont.):		
L.E. Jung & Wulff Co., Inc.	100%	New York
Knickerbocker Market Research Corp..	100%	New York
Schenley Affiliated Brands Corp. ...	100%	New York
Schenley Distillers, Inc.	100%	Delaware
Schenley Enterprises, Inc.	100%	Delaware
Schenley Far East, Ltd.	100%	Japan
Schenley International Co. Inc.	100%	Delaware
Virgin Islands Rum Industries, Ltd..	100%	Virgin Islands
Subsidiaries of Knickerbocker Market Research Corp.:		
Merit House, Inc.	100%	Delaware
World Network, Inc.	100%	Delaware
Subsidiary of Schenley Distillers, Inc.:		
Tennessee Dickel Distilling Co.	100%	Tennessee
Subsidiary of Schenley Medical Imaging, Inc.:		
Digital Imaging Company of America, Inc.	80%	Delaware
Subsidiary of McGregor Corporation:		
Faberge, Incorporated (4)	61%	Minnesota

(1) For information concerning Riklis Family Corporation and AFC, see "Introductory Note" and Item 12 - "Security Ownership of Certain Beneficial Owners and Management".
(2) Rapid has approximately 100% of the voting power except for the election of directors where it has approximately 81% of such voting power.
(3) McCrory has a 50% interest in a joint venture which owns 55% of the outstanding common stock of HRT Industries, Inc. (see Note 23 to Financial Statements).
(4) See Note 23 to Financial Statements.